

COMMITTEE HEARING
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
)
Integrated Energy Policy Report) Docket No.
) 02-IEP-01
_____)

EL SEGUNDO CITY HALL
350 MAIN STREET
CITY COUNCIL CHAMBERS
EL SEGUNDO, CALIFORNIA

THURSDAY, OCTOBER 2, 2003

9:30 A.M.

Reported by:
James Ramos
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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMISSIONERS PRESENT

James Boyd, Presiding Member

John Geesman, Commissioner

ADVISORS

Michael Smith

Melissa Jones

Scott Tomashefsky

STAFF PRESENT

Thom Kelly, Assistant Executive Director

Karen Griffin, Program Manager

ALSO PRESENT

Scott Hawley
Watson Cogeneration Company

Jeffrey K. Hartman
The Southern California Gas Company
San Diego Gas and Electric

Aaron Jones
Golden State Power Cooperative

Gregory T. Blue
Dynergy, Inc.

David Lloyd
NRG Energy

Sigrid Hawkes
Gray Panthers of the San Fernando Valley

Daniel W. Douglass
Law Offices of Daniel W. Douglass
Alliance for Retail Energy Markets

ALSO PRESENT

Jim Frassetto
DeMaria Electric Motor Services, Inc.

John DeWitt
DeWitt Petroleum

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P R O C E E D I N G S

9:30 a.m.

PRESIDING MEMBER BOYD: Good morning and welcome to our hearing on a draft of the Energy Commission's Integrated Energy Policy Report. I'm Commissioner Jim Boyd, the Presiding Member of the CEC's Integrated Energy Policy Report Committee. The Associate Member of this Committee is Commissioner Bill Keese. He's not with us today; he is out of state, in fact, out of the country on business.

I am delightfully joined today, though, by Commissioner John Geesman. And I much appreciate his interest in the subject. Also up here with me today -- I almost said on the dais and I'm not quite sure it qualifies -- my Advisor, Mike Smith; Commissioner Geesman's Advisor, Melissa Jones; and Commissioner Keese's Advisor, Scott Tomashefsky.

Okay, today's hearing is actually the second in a series of hearings scheduled throughout the State of California to take public and stakeholder input and comments and suggestions about this draft report, the draft IEPR, as we call it, Integrated Energy Policy Report.

1 The final report is scheduled to be
2 submitted to the Governor on November 1st. The
3 draft document that's been released to the public
4 and that is before us today is the result of many
5 months, and I realize gee, it's a year now, of
6 work by the CEC Staff. And it's the result of
7 many many public workshops, public hearings.

8 It's the result of work by the staff of
9 many state agencies and our staff's working with
10 many state agencies, federal agencies and local
11 agencies; and reflects a lot of input from
12 stakeholders from these agencies and from the
13 public.

14 The statute that calls for this report
15 detailed a number of state agencies that were to
16 be consulted and included in the preparation of
17 this report. And we've reached out to all of
18 them, as well as others that we know, who are
19 affected by or stakeholders in the energy arena.
20 And we certainly appreciate their work and their
21 input on this subject.

22 In turn, the statute that provided for
23 this report also provides that the designated
24 state agencies are to be guided by the information
25 analyses and the policies developed in this

1 report. So there is a mutual interest in the
2 development of this document in the final
3 recommendations.

4 This Integrated Energy Policy Report
5 will be the first. And the statute that provided
6 for it calls for a report every two years from the
7 Energy Commission, and provides opportunity to
8 update the report each year. And since we didn't
9 get the normal two years to prepare this, but only
10 a year's warning that we had to do this, it was a
11 very herculean task for all involved.

12 And we are already planning, taking
13 steps to plan for next year's update. And
14 thinking about the logistics involved, even if
15 preparing the biennial report in two years hence.
16 So, basically this statute and these requirements,
17 in effect, created somewhat of a permanent venue
18 to facilitate fact-finding by this agency
19 regarding California's rather dynamic energy
20 picture and energy activities.

21 While most eyes, most attention has been
22 directed towards or focused on the past two or
23 three years, and the California electricity
24 crisis, the report covers all three areas of the
25 energy arena, or as my peers are getting tired of

1 hearing me saying probably, all three legs of the
2 energy stool, electricity, natural gas and
3 transportation fuel.

4 All three of these areas are and have
5 been issues in California for frankly the past
6 three or four years. All three areas are covered
7 in depth in this report, and there are policy
8 recommendations affecting each of these areas.

9 There have been many concurrent or
10 subsidiary activities, studies, reports, what-
11 have-you, and plans that have been underway during
12 this same time period. And these activities have
13 provided background, they've provided data, and
14 they've provided facts that have fed into the, as
15 we call it, IEPR effort.

16 For instance, the three principal
17 electricity agencies, namely the Energy
18 Commission, the Public Utilities Commission and
19 the Power Authority, released earlier this year an
20 energy action plan where they agreed upon, we all
21 agreed upon a host of activities we felt necessary
22 to address California's electricity crisis. And
23 since electricity and natural gas are now joined
24 at the hip, it addresses both subjects.

25 And, of course, the PUC, with help from

1 the CEC, has been engaged in these procurement
2 activities. Bulk agencies have been working to
3 implement the renewable portfolio standard statute
4 passed by the Legislature.

5 The Energy Commission has been called
6 upon by the Legislature to create a series of
7 different reports about transportation fuels,
8 gasoline supply, price, to analyze the price
9 spikes, et cetera. We've looked at pipelines;
10 we've looked at strategic fuels reserves; issued
11 reports on how to reduce our dependence on
12 petroleum. All of this has been rolled into the
13 Integrated Energy Policy Report in one form or
14 another.

15 And following the electricity prices,
16 the Governor created a natural gas working group
17 that shepherded natural gas projects and the
18 issues along for all these years. And the work of
19 that group, which in turn, caused a much greater
20 effort by the Energy Commission in the natural gas
21 area, has all been rolled into this document.

22 And so while today we're looking at a
23 30- or 40-page summary, in reality there's about a
24 two-foot stack of reports, subsidiary reports,
25 that back up all of the work that's been done in

1 the past year that constitutes the Integrated
2 Energy Policy Report.

3 California's economy, if not its
4 society, really sits upon this energy stool which
5 I've referenced. And this is mainly because, as I
6 like to say, and maybe others, energy fuels the
7 engine that drives the California economy. And
8 those of us, certainly the Commissioners sitting
9 up here today, who are quite concerned about
10 California's economy and understand the role that
11 it plays in the welfare of the Golden State, as
12 well as its future.

13 We want this economy to prosper. We
14 want it to grow. And therefore are quite
15 concerned that our energy programs and our energy
16 future be solid and be assured. And that we try
17 to represent in the draft report you see before
18 you.

19 So, today we seek your input to help us
20 in completing this task, and I look forward to
21 hearing from you. I'd like now to see if
22 Commissioner Geesman has anything he'd like to
23 add?

24 COMMISSIONER GEESMAN: No, thank you.

25 PRESIDING MEMBER BOYD: Thank you, John.

1 And I will turn the program over to the staff.

2 Mr. Thom Kelly is going to kick off the
3 presentation, and then following a brief staff
4 presentation, we'll get to public comment.

5 MR. KELLY: This brief presentation is
6 about what is in the Integrated Energy Policy
7 Report, how it came about, and some background as
8 to where it fits into the continuum of the Energy
9 Commission's history.

10 That's why we call it the past, present
11 and one more thing, there's steps yet to be done.
12 And that's what I involved in the future.

13 In the past, starting in 1975 the Energy
14 Commission was required to prepare a biennial
15 report on energy policy and energy planning for
16 the state. And it covered quite a few fuel types.
17 It covered R&D, it covered future looking, and it
18 also included trends from recent past to what is
19 likely to happen in the near future.

20 The Warren Alquist Act, which is what
21 started the Energy Commission, largely -- how do
22 we disable that feature -- largely led to siting
23 decisions. Power plant siting was the main
24 function, and it stayed that way for quite a few
25 years.

1 During restructuring, after AB-1890, for
2 quite a few years we just sort of let our analysis
3 capability wither. It wasn't asked for; it was
4 not expected. In fact, some people figured we
5 should just do away with it all together. But
6 fortunately we nurtured it along and prepared
7 special projects using some of the old capability.
8 And mostly it was used to monitor what was going
9 on.

10 Information is a valuable commodity, and
11 good information was hard to come by during the
12 crisis. So we turned a lot of our attention to
13 just figuring out what should have been, finding
14 out what was, and then trying to find out what the
15 difference is between what we thought should have
16 been and what was.

17 Then SB-1389, Senator Bowen's Integrated
18 Energy Policy Report, required us to bring a lot
19 of this analysis back and consolidate it and focus
20 it in a way that we hadn't focused it before.

21 It's largely to look at the whole state,
22 not just IOUs, which is the principal focus of the
23 Public Utilities Commission, but the municipal
24 utilities and others.

25 It includes all fuels, transportation,

1 natural gas, oil, coal, any kind of fuel almost,
2 including biomass. We're to look at the trends;
3 we're to see what trends mean. If nothing else
4 happens in an offer, recommendations for change in
5 case we don't like or decisionmakers don't like
6 the results that it looks like they will be
7 obtaining.

8 This energy report that we are to
9 prepare will have recommendations and does require
10 us to, and we did, consult with a lot of other
11 agencies in trying to come up with a holistic
12 integrated and statewide view.

13 This picture probably best, without
14 resorting to clip-art, shows the three stools that
15 Commissioner Boyd talks about supporting the
16 Integrated Energy Policy Report. From each type
17 of fuel to including energy efficiency, R&D, other
18 public interest kinds of research which cuts
19 across transportation, electricity and natural
20 gas. And we integrate those into this one report.

21 The framework is such that we biennially
22 prepare this. The next biennial report of this
23 IEPR will be in 2005. But, as Commissioner Boyd
24 mentioned, we have an update that's due in
25 November of 2004. The Committees for both of

1 these updates and the new IEPR for 2005 will be
2 chosen and announced very soon. So we already
3 want to begin working on the next update and the
4 report, because it does take quite a bit of time
5 to put these together.

6 Partly because we have so many fuels to
7 look at. We look at supply; we look at demand.
8 We have to consider what the price is, what the
9 price is likely to be, given the infrastructure
10 that we have in place, and expect to have in
11 place. And it goes all the way through to after
12 that's done, figure out what the environment or
13 climate change impacts might be to feed back into
14 our first analysis to see if that still makes
15 sense, or if we should make some changes based on
16 that.

17 Our public process was quite extensive
18 for the one year that we had, some 28 public
19 meetings, hearings and workshops were held for all
20 three different fuel forms. Some of them held
21 with other agencies. And the public had quite a
22 bit of opportunity to participate; 140
23 organizations.

24 When he says two feet of reports and
25 submittals, that's no exaggeration. I went to

1 dockets to bring a visual. I was going to say,
2 all right, let's see what there was in the record.
3 And they showed me the record. And I decided, I
4 had to fly here from Sacramento, and it wasn't
5 worth carrying. It's over two feet worth of
6 those. So, sorry about that visual. This will
7 have to do.

8 The thing that ran this, if you take
9 nothing else away from looking at it, is
10 infrastructure. It focuses on infrastructure.
11 That turns out to be a critical part of the energy
12 future. It seems to be very close to efficient
13 now, but a lot of improvements can be made. And
14 to take account of a lot of risk; to take account
15 of uncertainty that goes beyond risk, that is
16 simply unknowable, but we can plan for it. But to
17 do this takes some actions. And those actions are
18 what we refer to in this report.

19 The way it's sort of structured that we
20 see it, in terms of a process, is these legs on
21 the far left now, instead of underneath the stool,
22 lead to the thematic infrastructure improvement
23 that is required. We're taking public input;
24 we're taking stakeholder input. And have been
25 doing that for some time. We're asking for more

1 now.

2 This is part of the presentations we're
3 making around the state to call for these comments
4 on what has been proposed thus far, because we
5 expect there will be adoptions to follow. Other
6 state agencies, our own agency, the Legislature
7 and the Governor's Office are going to be offered
8 recommendations for policy changes. And we think
9 quite a few of those will be taken. So, it's
10 important to give them the right recommendations.

11 But we don't want to just give them
12 another report. There are too many reports that
13 just lie there and don't do anything, so we've got
14 to focus this and make recommendations that matter
15 to people, that can be interpreted and used in
16 meaningful ways.

17 This policy report has suggested
18 grouping them in four different ways. The first,
19 and probably most important, is the harvesting
20 energy efficiency. We want to increase the
21 efficiency gains that we've seen so far; increase
22 efficiency beyond what is currently planned. And
23 we can find more that's very cost effective and
24 clean.

25 We want to diversify the fuel types so

1 that we're not dependent on any one type, either
2 physically or economically. Those are two
3 components that we have to consider, not just the
4 physical dependence, but the economic, as well.

5 We want to encourage customer choice, a
6 fundamental part of making competition work for
7 us. And the infrastructure, again, there are
8 certain things which just deal directly with
9 infrastructure, with other implications for
10 efficiency and diversity.

11 The principal recommendations, these are
12 my culled principal recommendations, there are
13 many recommendations, I couldn't fit them all on
14 two slides, so these are the ones I've chosen to
15 share. Efficiency, you see, is number one. In
16 addition to all the other energy efficiency
17 programs that we have, funding levels we're asking
18 for and expect to see, another 1200 megawatts of
19 electricity and 100 million Btus of natural gas
20 saved beyond what we currently have. That's very
21 plausible.

22 We call on enacting legislation that
23 will change the renewable portfolio standard
24 achievement of 20 percent by 2017, to 2010. The
25 energy action plan adopted by the three energy

1 agencies in the state, the Energy Commission, the
2 PUC and the California Power Authority, call for
3 this to be in place; and having legislation, we
4 think, will help achieve that.

5 We'd like a retail market structure if
6 we're going to change it, finesse it, improve it,
7 we'd like to have it include customer choice. And
8 when there is responsibility for supplying
9 electricity, and it's to be made more reliable, we
10 think that all parties should cooperate in this
11 provision. And if you're going to provide power,
12 provide reliability with the power.

13 We do like using the minimum use of
14 fresh water in new power plants in and around
15 power plants. And to take advantage of 25 years
16 of experience with permitting, power plant siting;
17 designing the process both under heavy regulation
18 and under restructuring reduced regulation.

19 We'd like to take advantage of that
20 experience in the permitting processes to
21 consolidate bulk transmission, permitting at the
22 Energy Commission, as well as petroleum refinery
23 permitting.

24 Last for my selection of these many
25 recommendations we'd like to reduce onroad

1 petroleum demand by 15 percent over current
2 levels.

3 The next steps. This is the second
4 hearing on this policy report, proposed staff
5 Committee draft policy report. We'll be having
6 three more hearings like this throughout the
7 state, leading to, by October 17th, a proposed
8 final draft.

9 We're open, poised to make changes to
10 this draft based on your public comments, so
11 please offer every suggestion, comment,
12 improvement that you can think of, because we'd
13 like to hear them all.

14 That's leading to on October 29th the
15 Energy Commission considering at a business
16 meeting the adoption of this, and forwarding on
17 November 1st to the Governor. At that point the
18 Governor has 90 days to read it, internalize it,
19 issue a report about what is important, what
20 recommendations to keep, which to emphasize by
21 approximately February 1st.

22 And then the Legislature will do its
23 thing. The Governor will do more things, and the
24 energy agencies will do ours.

25 PRESIDING MEMBER BOYD: Thank you.

1 Comments, questions? Thank you, Mr. Kelly.

2 With that, I'll turn to those of you who
3 signed up in the audience. I didn't note that
4 anybody indicated any kind of time constraints, so
5 I'm just going to take them in the order they are
6 here. If anybody has a time constraint, well, let
7 somebody on the staff know. We can move you up.
8 This is pretty random.

9 First card I have is Scott Hawley of
10 Watson Cogeneration Company. And while you're
11 going to the microphone I neglected a piece of
12 housekeeping information. When you do come to
13 testify, first would you give the reporter here a
14 business card if you have one with you, to aid him
15 in his task.

16 Secondly, would you lead off your
17 testimony with just your name and who you
18 represent for the record. Thank you.

19 MR. HAWLEY: Good morning. My name is
20 Scott Hawley; I'm here representing Watson
21 Cogeneration Company. We're one of the largest
22 cogeneration facilities in the United States, and
23 in fact, the largest cogeneration facility in
24 California. And we thank you for the opportunity
25 to be here and talk about state energy policy.

1 Watson supports the promotion of
2 reliable energy efficient cogeneration.
3 Cogeneration is the energy that fuels California's
4 economy. In fact, cogeneration -- our particular
5 plant has been here for 15 years.

6 In the aftermath of the state's energy
7 crisis, cogen supported keeping the lights on. I
8 know our facility ran without getting paid for
9 nearly four months. And that's because we were
10 there and we wanted to keep the lights on. We
11 didn't have to do that, but that was important to
12 us.

13 Earlier this summer in the aftermath of
14 our recent energy crisis California's principal
15 energy agencies adopted an energy action plan to
16 insure that reliable and affordable electrical
17 power and natural gas supplies continued to be
18 available to the residents of the state.

19 Part of that plan seeks to meet
20 California's current and future energy needs
21 through the creation of policy that encourages the
22 development of new and efficient reliable power
23 generation sources that are both cost effective
24 and environmentally sound.

25 Cogeneration, I would submit, is a

1 proven technology that is reliable, cost effective
2 and environmentally sound, and is meeting
3 California's needs today.

4 Cogeneration plants produce both
5 electric power and useful thermal energy, such as
6 steam from the same fuel source; and that fuel
7 source preference today is natural gas. The power
8 and steam produced is then used in the industrial
9 manufacturing process, resulting in efficient
10 utilization of fuel, thus meeting the criteria of
11 efficiency.

12 Cogeneration, indeed, reduces the demand
13 for natural gas. Nearly 15 years ago Watson
14 Cogeneration Company invested over \$300 million of
15 private capital to create an environmentally sound
16 facility that burns natural gas and alternative
17 fuels, including refinery waste gas that was
18 formerly flared to atmosphere, and butanes
19 produced at the refinery to produce up to 400
20 megawatts of electricity. That's enough to power
21 400,000 homes.

22 Surplus electricity is also sold to
23 Southern California Edison. Watson, itself,
24 exports over 1.2 million -- of steam per hour to
25 the ARCO Refinery in Carson, California. The ARCO

1 Refinery in Carson, California produces over 20
2 percent of the state's gasoline. And, in fact, is
3 one of the most efficient refineries in the world.

4 At Watson Cogeneration Company,
5 producing two energy products from the same fuel
6 source saves the state the equivalent of over
7 25,000-million Btus a day. Since it's inception
8 it has saved the state over 140-million Btus of
9 natural gas a day. That is the equivalent of 22
10 million barrels of oil.

11 Net reduction of air pollution at the
12 refinery which resulted from the installation of
13 the cogen facility is over 5000 pounds per day of
14 NOx; 1500 pounds a day of SOx, sulfur oxides. Put
15 another way, reduction of NOx emissions at the
16 refinery is equivalent of eliminating the
17 emissions of some 162,000 vehicles per day off the
18 roads of California. This is over 28 million
19 pounds of NOx since the plant's inception.

20 Cogeneration also reduces the risk of
21 outages at the refinery operations, thereby
22 reducing the risk of gasoline shortages in the
23 State of California. We produce our own power,
24 and the power is there when we need it.

25 Cogeneration is providing not just the

1 refining industry, but manufacturers and
2 businesses throughout the state, with the
3 opportunity to reduce the cost of production and
4 manufacturing, improve electric reliability,
5 reduce emissions and address societal concerns
6 about global warming by improving fuel efficiency.

7 Cogeneration benefits California. It
8 benefits California by creating private
9 investment, jobs, and tax revenues. When the
10 state relies on out-of-state generation investment
11 rather than encouraging instate investment, the
12 opportunities for an increased tax base and
13 employment are lost.

14 Cogeneration's ability to not only
15 deliver electricity, but also thermal energy or
16 steam for industrial users shouldn't be
17 overlooked. The steam goes to the production of a
18 product, be it oil, paper or plastic. This
19 efficient use of a single fuel natural gas allows
20 industry to be more efficient and produce lower
21 cost goods. With the sale of goods, more
22 employment is created than without cogeneration.

23 Cogeneration also benefits California by
24 enabling customers to manage and stabilize energy
25 costs. Cogeneration, as an alternative to utility

1 or market energy purchases, also serves as an
2 important check on market prices.

3 The state's economy benefits from
4 cogeneration. The hedge it provides to the
5 customer against market volatility may be the
6 financial cushion necessary to keep businesses
7 profitable and employing workers.

8 Cogeneration also benefits California by
9 increasing electricity available to serve
10 California. Cogeneration brings more electric
11 supply to the state using private investment
12 dollars and consequently lowers the price of
13 energy consumed in the state.

14 The diversity of sources and supply
15 locations of these resources at California
16 business sites is a significant operating benefit
17 to the grid. Moreover, this supply, unlike
18 merchant generation, is committed to serve load
19 within the state.

20 Cogeneration also benefits California by
21 enhancing the reliability of the state's
22 transmission grid. Since it relies on private
23 transmission lines, cogeneration reduces the load
24 on the state's transmission system, thereby
25 decreasing the grid's peak load requirements.

1 This relieves congestion on the transmission
2 system and forestalls costly grid expansions.

3 Cogeneration also provides voltage
4 support to grid operations. In short,
5 cogeneration is distributed generation, and it
6 enhances grid reliability.

7 Cogeneration also benefits California by
8 increasing energy efficiency and reducing air
9 emissions. It has brought energy efficiency and
10 environmental benefits to the state. Cogeneration
11 technology increases efficiency of fuel used in
12 generating electricity through the simultaneous
13 production of both electrical and thermal energy.

14 Also this generation is located near
15 load, which reduces transmission line losses that
16 otherwise would result if the power had to be
17 imported from a distant generator from out of
18 state.

19 And, again, air emissions are reduced by
20 cogen and renewable technologies relative to other
21 fossil fuel cogeneration.

22 Cogeneration benefits California by
23 enhancing energy efficiency and reducing the
24 state's reliance on natural gas and natural gas
25 transportation for electric generation. This is

1 accomplished by using one fuel source to produce
2 two useful products. Again, it's very energy
3 efficient.

4 In the late '70s and early '80s as this
5 nation sought energy independence in a time of oil
6 shortages, long lines at the gasoline stations,
7 California led the nation and this world in
8 adopting policies that encouraged the development
9 of renewable resources such as geothermal, wind,
10 solar and alternative technologies, such as
11 cogeneration.

12 These policies were successful; they
13 resulted in private business enterprises investing
14 billions of dollars to build the most diverse
15 power generation resources in the world. Today,
16 as a direct result of these state policies,
17 cogeneration supplies over 12 percent of
18 California's total demand for electricity. That's
19 nearly 6500 megawatts.

20 I urge the California Energy Commission
21 to sustain past state policies and develop new
22 policies that will promote the development of and
23 reliance upon industrial cogeneration. In
24 addition, I'd recommend that the CEC recommend
25 that the state's mandate for increasing renewable

1 generation sources by 2010 be amended to include
2 the purchase of cogeneration by investor-owned
3 utilities.

4 That concludes my comments.

5 PRESIDING MEMBER BOYD: Thank you, Mr.
6 Hawley. Any comments or questions? Commissioner
7 Geesman.

8 COMMISSIONER GEESMAN: In an earlier
9 life both Commissioner Boyd and I strove mightily
10 in the late 1970s to engender a better policy
11 environment to encourage cogeneration.

12 I can well remember Governor Jerry Brown
13 continually beseeching us as to how many megawatts
14 can we get here, and how many megawatts can we get
15 here. And I think, if I recall correctly, the
16 number that we came up with was something on the
17 order of 2000, 2200 megawatts, something like
18 that. And we were regarded as fringe speculators
19 in terms of making projection, subject to a fair
20 amount of criticism outside the state government,
21 as to placing undue and unsafe reliance on such a
22 questionable supply source.

23 And I think the state did a good job of
24 preparing well for the implementation of PURPA.
25 When the PURPA solicitations went out, lo and

1 behold, our estimates ended up being several
2 orders of magnitude short.

3 And I think that your industry performed
4 a vital service to the state during the darkest
5 days of the 2000/2001 crisis. I think it's
6 shameful that there wasn't more attention paid to
7 payment provisions. But every Californian owes
8 the QFs a debt of gratitude for continuing to
9 operate despite the payment problems that existed
10 for too many months.

11 At the same time I think you've been the
12 step-child of state policy here the last five to
13 ten years. And that we ought to figure out ways
14 in which to encourage greater reliance on
15 cogeneration. There's a lot more potential out
16 there, I think, that we can create a beneficial
17 environment.

18 I appreciate you for bringing that to
19 our attention this morning.

20 MR. HAWLEY: Well, thank you. I'd also
21 like to remind the Commissioners that many of
22 these plans have been around for 15 years now.
23 And they're still among the most energy efficient,
24 even new, again if you consider new combined cycle
25 plants, when you consider the combined efficiency

1 of that plant also supporting state's business and
2 keeping the lights on, they are very efficient and
3 competitive with today's technology.

4 I'll also remind the state policymakers
5 that many of the contracts that the cogenerators
6 rely upon are beginning to expire. And there's no
7 program in place for continuing those. And that's
8 going to be a problem for many cogenerators. If
9 they don't have a place to put the surplus
10 electricity that they produce, many of them will
11 just close up shop.

12 Thank you.

13 PRESIDING MEMBER BOYD: Well, I thank
14 you, and I just want to join Commissioner Geesman
15 in thanking you and your industry for what you did
16 during the darkest hours. I'm afraid what you did
17 was lost in the deep dark shadows of the other
18 events that took place then. And some of us were
19 locked up in windowless conference rooms during
20 that period of time.

21 I do remember every day checking the
22 status of things and recognizing that some of you
23 were out there generating electricity without
24 benefit of payment while other people were locked
25 up in other rooms with your industry trying to

1 figure out how to resolve the payment issue.

2 So, I'm afraid -- maybe someday somebody
3 will write something about the heroes rather than
4 the demons of the electricity crisis. But you
5 obviously had two advocates in the two
6 Commissioners sitting here. And we'll see what we
7 can do in the future to sustain cogeneration, self
8 generation, et cetera, et cetera.

9 Thank you for your testimony.

10 David Lloyd, El Segundo Power.

11 MR. LLOYD: Can I hold my comments and
12 I'll follow Mr. Blue.

13 PRESIDING MEMBER BOYD: All right, I'll
14 join you two together, then.

15 Jeff Hartman of SoCalGas, SDG&E.

16 MR. HARTMAN: Hi, my name is Jeff
17 Hartman. I'm the Director of Energy Markets and
18 Capacity Products for the Southern California Gas
19 Company. And I'm here today on behalf of both
20 Southern California Gas Company and SDG&E.

21 We'd like to thank the Commission for
22 the opportunity to testify before you today. And
23 we're very supportive of the intent and direction
24 of the Integrated Energy Policy Report and would
25 like to perhaps offer some of our experience to

1 help you fine tune some of the recommendations.

2 And I'd like to talk about specifically
3 for areas of the report today primarily on the gas
4 side. And I believe there will be someone from
5 SDG&E to address more of the electric issues at
6 your hearing in San Diego.

7 But the four areas I wanted to discuss
8 today were the energy efficiency recommendations;
9 the low energy low emission vehicle issues; RD&D;
10 and the infrastructure recommendations.

11 SDG&E and SoCalGas have administered
12 energy efficiency programs successfully for over
13 20 years. We estimate that in at least the last
14 ten years our customers have saved over 29 billion
15 therms, representing a savings to individual
16 consumers of millions of dollars and basically
17 enough to provide the full gas service to about
18 52,000 homes a year.

19 We support the energy action plan goals
20 for energy efficiency and have embraced the PUC's
21 goals for doing all the cost effective energy
22 efficiency and demand response program as part of
23 integrated procurement strategies.

24 You'll note that SDG&E recently filed,
25 as part of its 20 year resource plan, a very

1 aggressive demand side portfolio, including
2 stepped up efforts in energy efficiency and demand
3 response programs.

4 Both utilities have recently proposed
5 over \$70 million in cost effective energy
6 efficiency programs for 2004/2005. And that
7 includes a partnership with a wide spectrum of
8 participants, including cities, community
9 organizations. And we believe that the utility
10 administration of these energy efficiency programs
11 can help the state achieve its goals of reducing
12 energy uses.

13 We are eager to return to a leadership
14 role with the cities, communities and other
15 service providers as California sharpens its focus
16 on this critical element in the integrated energy
17 plan. And we urge the CEC to participate in the
18 PUC's upcoming workshops which will establish that
19 long-term policy framework for energy efficiency
20 programs that are run by the utilities
21 specifically.

22 With respect to low emission vehicles,
23 we support the efforts of the CEC to diversify
24 transportation fuel types and sources. And we
25 believe that natural gas can be very supportive of

1 this objective.

2 We would just note for you that it
3 appears the CEC and the PUC are moving in
4 different directions, specifically the PUC is
5 moving towards eliminating a lot of the utility
6 low emission vehicle programs. And we suggest
7 that it might help to communicate to the PUC the
8 importance you place on achieving this objective.
9 And that might provide guidance to the PUC in
10 setting its policy goals when they review the
11 utility program, specifically.

12 PRESIDING MEMBER BOYD: Not meaning to
13 interrupt you, but just for your information, the
14 CEC is an intervenor in that situation. And you
15 might note that today's action has been postponed
16 at the PUC. So there's still hope.

17 MR. HARTMAN: Okay, thank you. We
18 appreciate that support.

19 With respect to energy RD&D we agree
20 with the CEC's encouragement of continued support
21 for gas and electric RD&D. We've had active gas
22 R&D programs that have yielded important
23 technological advances. Specifically with our
24 participation programs, have developed some
25 leading advances in commercialization of

1 microturbines, small microturbines for distributed
2 generation.

3 We had a creative arrangement with the
4 PUC that led to promotion of the plug power
5 residential fuel cell program which we think has
6 great promise in residential applications.

7 Again we'd recommend that the CEC
8 highlight the need for coordination of electric
9 and gas RD&D activities, and focus these
10 technologies on those that will have the greatest
11 impact on reducing energy usage.

12 We also believe that gas public purpose
13 RD&D should continue to be managed by the
14 utilities to achieve the greatest efficiency
15 gains.

16 With respect to infrastructure, I'd like
17 to focus specifically on the natural gas
18 infrastructure issues. We'd like to recognize the
19 Commission for its attention to what we believe is
20 a critical long-term gas structure and development
21 issues and the need for procuring adequate,
22 reasonably priced supplies.

23 We would note one element of
24 disagreement with a factual matter in the
25 Commission's report, and that is on page 8 of the

1 report the state's pipeline capacity was not
2 sufficient to bring natural gas into the state to
3 replenish storage. In the reference to during the
4 energy crisis. And I would actually suggest that
5 within southern California that issue was not the
6 case, and that there was available capacity to
7 meet all those needs.

8 The fact that storage wasn't filled was
9 primarily a commercial decision made by
10 participants who hold storage rights on our
11 system.

12 And based on recent expansions of our
13 facilities, we have filed in our cost of service
14 proceeding just recently our gas resource plans,
15 reaffirming the adequacy of our systems to meet
16 expected requirements over the long term.

17 I would also like to note that we've had
18 a number of discussions with a number of sponsors
19 promoting LNG into southern California. And we
20 continue to support their efforts to bring that
21 new supply option to California customers. And
22 our position is that our view is that the customer
23 should exercise the choice and we will be more
24 than accommodating to those supplies who wish to
25 access the market. But, again, the focus from our

1 efforts right now is to insure that the customers
2 have the ability to make the choice as to which
3 supplies they want. And that should dictate the
4 required investments by the utility.

5 We'd also like to recommend that the CEC
6 define its recommendation regarding the
7 appropriate use of storage so that the item is
8 clearly understood by the market participants and
9 regulators. And I'd also like to emphasize, so
10 that it doesn't conflict with your objective of
11 promoting customer choice.

12 One item that we think is missing from
13 your recommendations is a recommendation to
14 support the adoption of firm receipt point rights
15 within southern California. That system exists in
16 northern California. And there would be
17 tremendous benefits to customers and suppliers.

18 First, it would insure that customers
19 can align their procurement, the procurement of
20 the commodity and interstate capacity with their
21 end use requirements. And it would also provide
22 insurance to the developers of these new projects
23 that if they spend billions of dollars of
24 investment to bring these new supplies to
25 California, that they have the certainty that they

1 can make it to the marketplace, and in fact, get
2 to the burner tip.

3 There is a system of firm tradeable
4 rights operating in northern California. It's
5 been operating for many years. That process is
6 stalled within the PUC process at this time. So
7 we would recommend that for statewide consistency
8 and for the proper market signals to the
9 development of these projects, that that would
10 enhance the quality of our energy security.

11 That concludes my comments, and thank
12 you for the opportunity to speak.

13 PRESIDING MEMBER BOYD: Thank you. Any
14 comments, questions? If not, thank you very much
15 for your testimony.

16 UNIDENTIFIED SPEAKER: Commissioners, if
17 we could just give you these outlines of our
18 comments today. These aren't our formal written
19 comments, but --

20 PRESIDING MEMBER BOYD: We is?

21 UNIDENTIFIED SPEAKER: Oh, SoCalGas and
22 SDG&E.

23 PRESIDING MEMBER BOYD: Well, I want
24 that in the record, thank you.

25 Okay, next I have Aaron Jones, Golden

1 State Power Co-Op. Hello, again, Mr. Jones.

2 MR. JONES: Good morning. Again, my
3 name is Aaron Jones. I'm President and General
4 Manager of the Golden State Power Co-op. And,
5 Commissioner Boyd, Commissioner Geesman and staff,
6 I appreciate this opportunity to comment on your
7 policy report today.

8 Before I comment, however, I'd like to
9 do something I did in Washington State 14 years
10 ago when I started working for an electric
11 cooperative there. When I went to the Legislature
12 very few people knew what a co-op was, especially
13 a rural electric co-op. So my first year or two
14 in Olympia I tried to educate people as to who we
15 are and what we were trying to do.

16 So, if you will give me just a minute
17 I'll tell you who I am and who I represent. For
18 the past 32 years I have worked for the rural
19 electric cooperatives. My career began in Oregon.
20 Then I moved up to Washington State where I worked
21 as the manager of the Washington Rural Electric
22 Co-op Association for the past 14 years.

23 I took the job in California, a similar
24 job, with Golden State, started January 1 of this
25 year.

1 While government relations and public
2 relations have been my main duties over the past
3 32 years, I'm happy to say that energy
4 conservation and renewable energy development have
5 been a growing part of my workload in the other
6 two states. As a matter of fact that's what
7 attracted me to Golden State Power Co-op.

8 This co-op association is dedicated to
9 efficiency energy use and clean power development.
10 Members of the association include the three
11 traditional distribution co-ops, Plumas Sierra,
12 Surprise Valley and Anza. Plus several newer
13 aggregation co-ops.

14 Now, the rural electrics go back about
15 60 years, but the aggregation co-ops go back to
16 the late 1990s. Aggregation co-ops like San
17 Francisco Community Power; San Diego County
18 Agricultural Energy Cooperative, which distributes
19 natural gas; Cooperative Community Power in San
20 Rafael, which does nothing but solar. And the
21 California Oil Producers Electric Cooperative
22 which is headquartered jus south of us in Long
23 Beach, and has membership all around the state.

24 Golden State Power Co-op is small. We
25 serve far less than 1 percent of the load in

1 California. In Washington State we had a similar
2 distinction. We served far less than 3 percent of
3 the load in Washington State.

4 However, as in Washington, the
5 California co-ops have a lot of strong friends
6 around the nation. For instance, there are about
7 1000 rural electric cooperatives nationwide. They
8 serve about 11 percent of the total U.S.
9 population, mostly rural, of course.

10 They own over 50 percent of the
11 distribution line in America. And they have
12 about 10 percent of the power supply in America.

13 In addition, we work in tandem with
14 several national associations like probably the
15 best known one, the National Rural Electric
16 Cooperative Association. But also we have our own
17 bank, the Cooperative Finance Corporation, which
18 has over \$20 billion in assets and is a major
19 borrower on Wall Street.

20 There's also the Federated Insurance
21 Company which is cooperatively owned and serves
22 the rural electric cooperatives. And a final one,
23 the National Rural Telecommunications Cooperative
24 which offers Direct TV, which is a brand name most
25 people would recognize. They have the rights to

1 all the Direct TV service in rural America, plus
2 they have other internet and other types of
3 satellite services.

4 While each of the California energy co-
5 ops is unique, we work together under a common set
6 of goals and objectives. Our highest priorities
7 are as follows:

8 Number one, sustainable energy
9 conservation in the electric sector. Because we
10 believe that electricity -- more efficient use of
11 electricity is in everyone's best interest. And
12 this is an important fact, because traditionally
13 the electricity cooperatives, like other
14 utilities, have been in a sell-kilowatt, sell-
15 more-kilowatts kind of a mentality.

16 We've changed that focus. Many of the
17 cooperatives in California and elsewhere are now
18 looking at energy conservation sharper than they
19 are looking at how can we sell the next kilowatt.

20 Number two is renewable energy
21 development. Because we believe clean power
22 development is economically viable today, and
23 socially responsible. Especially our focus is on
24 farm-based renewables, and obviously that's where
25 a lot of the renewables are going to come from.

1 But also urban based, like the co-op in San Rafael
2 and San Francisco, which are doing a lot of solar
3 installations.

4 Our third priority is local ownership
5 and control of electricity power plants. Here's
6 where it may become a little bit controversial.
7 We believe that local ownership has proven to be
8 superior to ownership by multi-state and
9 international companies that must focus first and
10 foremost on profit and less on local community
11 interests.

12 And example -- I came down early this
13 morning. I left Van Nuys about 6:30 because I
14 wanted to make sure I didn't get into a traffic
15 glut between 8:30 and 9:30, and so I had the
16 luxury of reading The Los Angeles Times for the
17 first time in a few days because I've been
18 involved in our own conference up in Universal
19 City this week.

20 And it had three great stories. One of
21 the stories was an editorial about how bad the
22 energy bill is back in Washington, D.C. right now.
23 A second one was about the new Edison plant that's
24 been proposed at Roseville, I believe it is, about
25 1100 or 1025 megawatt power plant, which obviously

1 is something California could use. But the way
2 it's going to be constructed is through a
3 subsidiary that does not require an obligation to
4 serve by the investor-owned utility.

5 Again, removing it another step away
6 from the local control and local community
7 interest that we think is so important, which has
8 been kind of the mainstay of the rural electric
9 cooperative movement in America. Again, local
10 service, local control, local democratic control
11 through election of our own local boards and
12 directors.

13 With that brief introduction let me make
14 a few initial comments about the Integrated Energy
15 Policy Report. My first impression of the report
16 could be summed up in one single word. It's
17 excellent.

18 I have read far too many energy-related
19 documents over the years, and most of them have
20 not impressed me a whole lot. This one did.
21 Partly because of its candid description of the
22 problem we face, or the multiple problems we face,
23 but also because it challenges us to become better
24 stewards of the dwindling natural resources we
25 depend on to power the economy and to keep the

1 lights on in California.

2 It emphasizes a more self-sufficient
3 California, again kind of right in turn with what
4 the rural electric cooperatives have come to
5 believe is job number one for cooperatives all
6 across America.

7 I fully support the report's first
8 recommended action, which is, quote, "continue to
9 harvest energy efficient opportunities." As the
10 report clearly points out, Californians reduced
11 their peak demand for electricity by over 5000
12 megawatts in 2001.

13 I think we should go on a publicity
14 campaign to point that out to the rest of the west
15 coast, because during the California energy crisis
16 I was in Olympia, Washington, working with state
17 government and other utility folks, and most
18 people had the impression that California wasn't
19 conserving energy and that we just continued to
20 waste it here; which, in fact, was not the case.
21 And I knew it because I was following it a little
22 closer here. But most people had the impression
23 you didn't save 1000, let alone 5000 megawatts off
24 of the peak.

25 By so doing, saving that 5000 megawatts

1 off the peak, folks in California proved that
2 meaningful conservation is possible. But the
3 report goes on to note, which is a bit troubling,
4 that Californians still pay the fifth highest
5 rates in the nation. And even with California's
6 successful conservation and efficiency program,
7 demand is rising each year. End of quote.

8 So, continuing to harvest energy
9 efficiency opportunities is the right strategy,
10 but will it be enough. If we really do face
11 higher rates and increasing demand in the years
12 ahead, which obviously we do, shouldn't we expand
13 energy efficiency opportunities, and do even more
14 to reduce demand.

15 The report calls for 1200 megawatts of
16 electricity savings through energy efficiency. I
17 think that number should be doubled. Again,
18 pointing to the Edison plant, the 1054 megawatt
19 plant that is proposed to be built, we're talking
20 about only saving the equivalent of just a little
21 over one major power plant. We could do far
22 better.

23 If my math, I tried to figure it out in
24 my head, based on what I assumed was roughly the
25 average megawatt usage in California, we're

1 striving to only save about 2 percent.

2 In your petroleum section of your report
3 you talk about reducing current demand by 15
4 percent. Why couldn't we go further into the
5 electricity sector. I believe through 30-some
6 years of working in this sector there's 10, 15 or
7 20 percent of cost effective energy conservation
8 savings still yet to be harvested. Two percent,
9 given the state of affairs in California today,
10 seems like kind of a meager attempt at what we
11 really ought to be doing.

12 There is no better way to reduce monthly
13 bills for homeowners or business owners than to
14 reduce electricity usage, thereby lowering demand,
15 and over time, overall electricity prices.
16 Conservation is not sufficient in and of itself to
17 safeguard California's energy future. But it is
18 the most cost effective first step in doing so.

19 Secondly, concerning the proposal to
20 accelerate the renewable portfolio standard to 20
21 percent in 2010, Golden State Power Co-op strongly
22 supports that recommendation. This is the sort of
23 bold action that we believe is needed to move
24 California in the direction it needs to go,
25 towards cleaner power production and cleaner air,

1 and an overall better environment for everyone to
2 enjoy.

3 In fact, that is the mission of our
4 newest co-op, the Clean Power Co-op, which
5 promotes energy conservation and renewable energy
6 development in California. You can learn more
7 about that cooperative at its new website which is
8 www.cleanpower.coop, c-o-o-p.

9 In closing, allow me to tackle one line
10 in the report that caused me to pause, to think,
11 to wonder and then to worry. Again, I was caught
12 up in the great debate about deregulation when I
13 worked in Washington State. I'm happy to say that
14 I was very anti-deregulation seven, eight years
15 ago. Continue to be so. Debated Enron numerous
16 times in various settings in Washington State when
17 they had several lobbyists there promoting
18 deregulation. And continue to be very suspicious
19 about deregulation in general.

20 On page 6 under the heading, leverage
21 opportunities for customers to determine their
22 energy future, end quote, the line that concerns
23 me reads, quote, "Explore through an expedited
24 collaborative, a retail market structure that
25 promotes customer choice." The words "expedited

1 collaborative" worry me quite a bit, because
2 whenever there is change that appears to be
3 controversial, someone wants to expedite it.

4 Anyway, you explain on pages 19 through
5 21 what you mean by exploring more customer
6 choice. And it talks about a, quote, "core/
7 noncore market structure similar to the gas
8 industry." This sounds plausible, just like full
9 blown competition did in the mid 1990s. But when
10 you boil it down to its essential elements, it's
11 nothing more than market access for big companies
12 and high fixed costs and more risks for everyone
13 else.

14 I assure you I am as eager to see large
15 companies in California pay less for electricity
16 as anyone in this room. But turning them loose in
17 an unstable marketplace and expecting power
18 marketers to build new plants to serve them at
19 lower cost is, in my estimation, a dangerous
20 proposition.

21 Through the traditional regulated
22 utility structure, large customers, especially
23 those with flat or predictable loads, have always
24 been able to benefit from lower pricing than other
25 customers. Traditionally in America, large loads

1 have enjoyed rates 40 to 50 percent lower than
2 average.

3 There's nothing wrong with lower pricing
4 when it's based on the cost to serve. But
5 California is not ready for another run at testing
6 free market competition in the electricity
7 industry, even if it's only for large loads.

8 What happened in the past, market
9 manipulation to maximize profits, could and
10 probably would happen a second time around.

11 I appreciate the fact that this time we
12 would have the benefit of hindsight and rules
13 would be different, but rules are subject to
14 change. The first time a major employer plays the
15 market the wrong way, locks in a price that
16 eventually proves to be above market, or doesn't
17 lock in prices when they are low and ends up
18 paying more than the competition, or when a power
19 marketer can't or won't deliver on a contract,
20 politics soon comes into play and good public
21 policy can get lost in the shuffle.

22 If you want to give ratepayers real
23 choices, and I mean large and small ratepayers at
24 the same time, give them the opportunity to
25 directly invest their own money in distributed

1 generation, wind, solar, biomass and other
2 projects that make sense at the local level.

3 Establish sound economical policy for
4 utility interconnect charges, and for minimum exit
5 fees so that more of these projects become
6 economically feasible. This will provide real
7 opportunities for individual customers and entire
8 communities to determine their energy futures and,
9 at the same time, will enhance your efforts to
10 increase the amount of generation from renewable
11 energy plants in California.

12 In closing, thank you once again for
13 this opportunity to share my personal views with
14 you, and to compliment you on your outstanding
15 work today as evidenced by the Integrated Energy
16 Policy Report. You are definitely on the right
17 track and California ratepayers will benefit from
18 your hard work.

19 A final comment is that the local
20 community action opportunities that I believe
21 should be made available to people are basically
22 what's driving renewable energy development in
23 Europe.

24 We had several speakers at our
25 conference this week, and one gentleman, Paul Gype

1 (phonetic) from California, made a remarkable
2 presentation about how local communities, through
3 cooperative business plans in Germany, Denmark,
4 Holland, the UK and other European countries, are
5 building windfarms; small windfarms, large
6 windfarms, solar programs, et cetera, et cetera.
7 Locally owned, locally controlled, local benefits
8 flowing back to the local citizens. And everyone
9 loves them. He used the comment that your own
10 pigs don't stink. People embrace all of these
11 different technologies when they have local
12 ownership and local control. And it's ramped up
13 greatly.

14 It's worked in Europe. I think it would
15 work in California. And I think California should
16 be the leader in this regard. Thank you very
17 much.

18 PRESIDING MEMBER BOYD: Thank you, Mr.
19 Jones. Questions, comments? Commissioner
20 Geesman.

21 COMMISSIONER GEESMAN: You touched on
22 quite a number of things, Mr. Jones. And I'd like
23 to review a couple of them, concentrate most of my
24 remarks and question on the core/noncore.

25 Let me say I agree with you as it

1 relates to the energy efficiency goals. And we
2 heard testimony yesterday in our hearing in San
3 Francisco that that needs to be better calibrated.
4 And also better integrated with the effort going
5 on now at the Public Utilities Commission; the
6 proceeding that Commissioner Kennedy is heading.

7 In fact, we were told yesterday, and I'm
8 not certain that this is accurate or not, but I
9 believe from anecdotal evidence that it is, that
10 the energy efficiency targets already put forward
11 in the utilities' procurement filings exceed the
12 1200 megawatt target.

13 And so I think we need to calibrate that
14 better to make it clear that our policy should be
15 continuing to try and stretch further.

16 And as you may know, Commissioner Boyd
17 and I also sit as the Commission's Renewables
18 Committee. And we have spent a great deal of
19 time. Commissioner Boyd has been available
20 outside this proceeding on trying to push and prod
21 the successful implementation of the state's
22 renewable portfolio standard.

23 And I think in that regard, just this
24 past month there's been a fairly remarkable
25 development that frankly the media's preference to

1 cover movie stars and recall candidates, has, I
2 think, fallen between the cracks. But September
3 9th the Southern California Edison Company
4 announced that a meeting of the steering committee
5 for the energy action plan, that they had achieved
6 a 22 percent renewable portfolio level for the
7 month of May, and 23 percent the month of June,
8 and more significantly, indicated that they would
9 be -- and these were their words -- nearly 20
10 percent for the calendar year 2003, and above 20
11 percent for the years thereafter. Which, coming
12 less than a year after the renewable portfolio
13 legislation went into effect, less than six months
14 after the energy action plan recommended
15 accelerating that goal to 2010, suggest a couple
16 things.

17 One, I think, a very significant
18 accomplishment on their part, which I would
19 attribute to a management commitment to make it
20 happen. But, two, a suggestion is that well, then
21 perhaps our goals need some adjustment there, as
22 well.

23 When my daughter came home with test
24 scores that were somewhat like that, I concluded
25 it was time for a new school. And I think that

1 Edison can and will lead the utility industry, not
2 just in California, but around the country, to a
3 transformation in the technologies that they rely
4 upon for the generation of electricity.

5 But that brings me to the core/noncore
6 subject. I actually do have a belief that from a
7 regulatory standpoint it is possible to build
8 firewalls and protective mechanisms to guard
9 against the cost-shifting that people fear would
10 take place from large customers no longer
11 satisfied with the price levels that the
12 competitive market can provide them.

13 But I guess from a slightly leftward
14 perspective, I would also feel that it would make
15 good sense to attempt to utilize demand from the
16 large customers to stimulate interest in and
17 demand for the output of some of the 6000 to 7000
18 megawatts of previously permitted plants that this
19 Commission has approved, but which are stalled
20 presently, in their construction for lack of any
21 demand.

22 And it seems to me that we confront two
23 choices. We can either create that demand through
24 utility procurement such as the Mountainview plant
25 that you read about in The Los Angeles Times

1 today. Or we can attempt to stimulate demand, or
2 perhaps free up and liberate demand from large
3 customers who have expressed a preference for
4 relying on nonutility sources of power.

5 The state, Commissioner Boyd and I in
6 particular, have a lot of designs or desires for
7 how the utilities utilize their very finite
8 balance sheets. PG&E is still in bankruptcy.
9 Southern California Edison has achieved an
10 investment-grade rating of triple BBB-minus from
11 only one of the three rating agencies. And it's
12 going to be awhile before they're able to climb
13 back up the ladder to a strong single A rating
14 category.

15 Of higher priority, I believe, to the
16 state for use of their limited financing
17 capability are interval meters that will promote
18 demand response savings among all of their
19 customer classes. The renewable portfolio
20 standard contracts, which we expect them to enter
21 into, and which must be carried on their balance
22 sheet, according to rating agency criteria. And
23 an expansion of the bulk transmission system,
24 which is going to be absolutely necessary if we
25 are able to harvest the enormous potential wind

1 resource in southern California.

2 I would rather see them utilize their
3 financing capability and contracting
4 responsibility in that direction than I would in
5 entering into long-term contracts for conventional
6 gas-fired plants.

7 And I think that while ultimately the
8 PUC will have to determine what's the appropriate
9 mix, the more demand that we can create among the
10 large customers for that natural gas fired
11 capacity that has already been permitted, the more
12 I believe the utilities will be able to do in
13 demand response, in renewables, in new
14 transmission expansion.

15 We can't have everything. We've got to
16 make some choices. And at least, for me, having
17 the belief in the ability of regulators to design
18 firewalls, I think that a core/noncore system
19 would actually further our aspirations in
20 renewables.

21 MR. JONES: If I could respond just very
22 quickly. I can't disagree with anything you've
23 said. I still, unfortunately, have a great
24 concern, having witnessed a lot of this in the
25 past. And I think what we're faced with in

1 California right now is we have some ongoing debt
2 problems in the energy sector that we all are
3 locked into for the next eight, nine, ten, 12
4 years.

5 Even if it's only a public perception
6 that the big companies were able to offload some
7 of that debt and go back out in the marketplace
8 and buy at lower prices than other customer
9 groups, I think you would certainly set up
10 regulators and others for a lot of criticism, and
11 possibly, as you know, a lot of times through the
12 press and just through word-of-mouth, people
13 suspect the very worst.

14 If you were there to explain what you
15 just explained to each ratepayer in California,
16 assuming we went to the core/noncore pricing
17 mechanism and allowed large industry to buy from
18 marketers, et cetera, you may be able to convince
19 all of your neighbors, but there are millions and
20 millions of people in California who wouldn't
21 quite understand why that came about.

22 They wouldn't quite understand, if, in
23 fact, a large industry got in trouble for bad
24 purchases or something, and got bailed out by the
25 state or some other entity. And they were able to

1 work directly with FERC being unregulated in the
2 State of California, how we would have allowed
3 that to happen.

4 So, I guess I'm just raising a red flag.
5 I saw that happen in Montana. That was a driving
6 force for deregulation in Montana. The big
7 companies got exactly what they wanted, and
8 ultimately they got the total market access and
9 then they got double rates. And they've been in
10 serious trouble ever since.

11 Let me just -- a third item in The Los
12 Angeles Times was probably the most important one
13 that I read this morning. I didn't mention it,
14 but it's about an architect and a friend n Los
15 Angeles who built a new home, 3000 square foot
16 home right off Sunset Boulevard. And their
17 monthly electricity bill is \$30.

18 They used all of the best renewable
19 energy, best, unfortunately, European appliances,
20 and built a super energy efficient home.
21 Something we would like to duplicate in L.A., as
22 well, for a variety of reasons.

23 But this is what we can do. This is
24 what we should do. We should take the lead of
25 this architect who designed the home perfectly in

1 a very interesting urban setting. He didn't build
2 a small home, again 3000 square feet with lots of
3 view windows, et cetera, and a very low energy
4 usage and a very low impact on the earth.

5 So, with that, again I respect your
6 comments very much. I think you're exactly right,
7 I'm just not sure that everyone in California
8 would fully understand what it is you were trying
9 to accomplish through the core and noncore
10 approach.

11 COMMISSIONER GEESMAN: Well, let me say
12 that's well taken. And I think nobody has put it
13 any better than Senator Deborah Bowen, who will
14 probably have more to say about this than anybody
15 else in the process.

16 She analogized it to going out to dinner
17 at a restaurant; somebody orders a fairly
18 expensive bottle of wine. And then tries to leave
19 the restaurant before the bill comes. She's made
20 it very clear that's not going to happen. The
21 Legislature will only approve even a partial
22 reinstatement of direct access, such as a
23 core/noncore system would contemplate.

24 Once the ten criteria that she put into
25 SB-888 last year are satisfactorily addressed by

1 the Public Utilities Commission, this will require
2 a legislative action before there is even a
3 partial reinstatement of direct access.

4 And I think that she, and ultimately a
5 majority of her colleagues, will have to be
6 satisfied that there are ironclad assurances
7 against cost shifting. And that people are,
8 indeed, held accountable for paying their share of
9 the bills that were run up for them on their
10 behalf.

11 But I appreciate your comments. Thank
12 you very much.

13 MR. JONES: Thank you.

14 PRESIDING MEMBER BOYD: Thank you very
15 much, Mr. Jones.

16 I was slipped a note by our staff during
17 this interesting dialogue on the subject of energy
18 efficiency. And then I'll circle back to the
19 comment that Commissioner Geesman made, that
20 yesterday we heard testimony about potential,
21 perhaps, to revise the efficiency number we're
22 carrying as it relates to the work with the PUC
23 and the PUC procurement.

24 That's only a piece of the iceberg in
25 energy efficiency. And I just wanted to, for the

1 record, cite some data. The basecase that the
2 Energy Commission uses to make its projections
3 against already includes 1800 megawatts of energy
4 efficiency expectation.

5 In the energy action plan, just from the
6 new dynamic pricing activities, there is an
7 anticipation of between 1500 and 2000 megawatts of
8 additional energy efficiency. And the 1200
9 megawatt number is the number we've been talking
10 about that results from the PUC procurement
11 action, the actions of Commissioner Kennedy and
12 the CEC Staff are working on together.

13 And in a discussion I had late last
14 night with Commissioner Rosenfeld, who is the
15 driving force for efficiency, I guess, at the
16 Energy Commission, and some testimony yesterday
17 about some staff papers that had been circulating
18 that also indicate that perhaps we can up that
19 number -- we'll probably hear more about it, well,
20 actually tomorrow, John, I guess, in Sacramento
21 from our own staff on how we might grow that
22 potential based on some of the very latest work.

23 Which just gets to the point of how
24 dynamic this issue of energy is, and how a one-
25 time report issued once every decade vis-a-vis

1 even once every two years, and our own desire that
2 we'd better update this every year, isn't even
3 enough to keep up with what's going on out there.

4 But, nonetheless, since we have made
5 harvesting efficiency a number one target in all
6 energy areas, and I notice the national government
7 has made energy efficiency a major target as a
8 result of blackouts. But even before that the
9 Alan Greenspan call with regard to the natural gas
10 prices led Secretary Abrams to immediately jump on
11 the efficiency bandwagon in the gas area.

12 So, efficiency is the siren call
13 nowadays in the energy area. And well recognized
14 by this Commission, I think.

15 With that, let me get back to our
16 agenda. And now, Mr. Greg Blue is up, and
17 followed thereafter by Mr. Lloyd, I guess, as the
18 tag-team of two.

19 MR. BLUE: Good morning. I'm going to
20 try to get something going here. First of all,
21 welcome to El Segundo. If the sun was shining
22 we'd be in the shadows of our power plant just
23 right down the road here. In fact, if you look at
24 the City seal, I believe that's our power plant up
25 there.

1 (Laughter.)

2 PRESIDING MEMBER BOYD: I couldn't make
3 my way past the construction work from --

4 (Laughter.)

5 MR. BLUE: We are an important part of
6 this community here, and we have the power plant
7 operators and workers here. And we provide a lot
8 of tax revenue for the City here.

9 PRESIDING MEMBER BOYD: We choose this
10 area because it seems to be energy-central; power
11 plants and refineries surrounding us.

12 MR. BLUE: One second.

13 PRESIDING MEMBER BOYD: Actually we
14 chose this area because our kind host, the City,
15 offered us the cheapest rates around.

16 (Laughter.)

17 PRESIDING MEMBER BOYD: For that we're
18 very grateful. We have the great state budget
19 deficit --

20 MR. BLUE: My name is Greg Blue. I work
21 for Dynegy. Dynegy is a 50 percent partner in
22 West Coast Power. And I'm going to talk a little
23 bit about who we are, with NRG Energy, our
24 partner.

25 I'm here to talk today about a very

1 important issue which, I believe, both in this
2 Integrated Energy Policy Report and the energy
3 action plan, an item that has received very little
4 attention in our opinion, and that's the issue of
5 the existing power plants, and what we're going to
6 do about those on a going-forward basis. And also
7 the value of the existing sites for redevelopment
8 opportunities.

9 West Coast Power, as I said, is a joint
10 venture owned 50/50 by subsidiaries of Dynegy and
11 NRG Energy. NRG Energy is the plant operators of
12 the plants. Dynegy handles the commercial aspect
13 of the plants.

14 We have the El Segundo unit right up the
15 road. You can see the stacks. Currently, units 3
16 and 4 are operating for about 670 megawatts. We
17 retired units 1 and 2 at the end of last year.
18 And that's an important thing, as I go through my
19 talk.

20 We are expecting a repowering license
21 soon with the potential redevelopment of 625
22 megawatts of new combined cycle. We also own the
23 Long Beach facility just down the road, seven gas
24 turbines, two steam turbines, 530 megawatts. It's
25 a likely candidate for retirement in 2005. And

1 for reasons we don't have -- there's no power
2 contract. And I'm going to get directly into that
3 a little bit more.

4 We also own what we've renamed Cabrillo
5 1, which is the Encina plant in Carlsbad. That's
6 965 megawatts. There's also a proposed
7 desalination plant there that's going to be the
8 largest in the U.S., 50 million gallons a day.
9 It's also a potential redevelopment site for new
10 capacity.

11 We also own what we call Cabrillo 2,
12 which is the -- there was a set of combustion
13 turbines at San Diego sold off in their auction,
14 which we have grouped together under the business
15 name Cabrillo 2. There's 13 combustion turbines.
16 Those are all pretty small units, pretty high heat
17 rates, and are only run on the hottest days.

18 There's about 189 megawatts. We retired
19 four of those CTs last fall. And we have another
20 CT to be retired at the end of this year. And I'm
21 going to talk about why we're retiring that in
22 just a few minutes.

23 We are going to be submitting detailed
24 comments today, and I'm also going to leave a copy
25 of this presentation.

1 The Integrated Energy Policy Report
2 talks a lot about strengthening the
3 infrastructure, the electricity infrastructure.
4 We believe that there needs to be a section titled
5 maintaining California's existing energy
6 infrastructure.

7 We also, it's our opinion that the
8 report contains some erroneous assumptions. It
9 fails to reach certain conclusions regarding the
10 older existing power plants. For example, there's
11 a broad statement used a lot that these are the
12 dirty old power plant. And, in fact, at least our
13 plants, we've installed the SCR emissions
14 reduction equipment, and they're at all-time lows
15 for NOx emissions. Our plants, and there's others
16 of the older plants have done that, as well. So,
17 broad statements that these are dirty old plants,
18 we take a little offense to that.

19 The report does not also discuss that
20 the current energy market and the proposed
21 mitigated energy markets will not support recovery
22 of operating cost for the older units. There's no
23 mention of that in this report.

24 There's no mention in this report, or an
25 acknowledgement, that the heat rates of the older

1 units are uneconomic versus the forward market
2 heat rates. And these are important. And in just
3 a few minutes, the next couple of slides, you'll
4 see why.

5 There's also no discussion regarding the
6 over 10,000 megawatts -- and I'm only talking
7 about the divested capacity, I'm not talking about
8 the cogeneration and the others, and the new
9 plants, but there's over 10,000 megawatts that are
10 not committed; meaning they don't have any kind of
11 contracts, starting with 2005.

12 I use the term at-risk, and I mean at
13 risk for economic retirements. And I've got a
14 graph here I'm going to show you, the next slide.

15 There's no recommendation in this report
16 on the issue that the viability of existing
17 generation requires intermediate to short-term
18 power contracts. There's no recommendations in
19 this report about the redevelopment of new
20 generation on existing sites, or no discussion of
21 the value of redevelopment on existing sites. And
22 we think there's a lot of value to that.

23 There's a statement in there that older
24 plants are displacing the newer, more efficient,
25 cleaner gas-fired generators. We do not agree

1 with that. We're not keeping people out from
2 building new plants. I think the financial
3 conditions of the companies, as well as
4 transmission factors, I believe, are keeping some
5 of the older plants, are potentially keeping some
6 of the older plants running.

7 There's also a statement in there that
8 there's proposed to study the attributes of the
9 older units. We think that's going to take too
10 long. One of the things I'm here to do today is
11 really here to try to raise the flag and ring the
12 bell, and you know, tick-tock, the clock is
13 moving. I mean this has been going on for a year,
14 and it's likely to go on for another year. And I
15 think we're closely approaching another big
16 problem.

17 What we did is we put together some
18 numbers just to be clear on what I'm talking about
19 here. And this is, what we did is we took the
20 total of the divested power plants for the three
21 utilities. Because what's happened is the
22 statements were made throughout the report that
23 says the older plants are going to be around
24 because of RMR contracts and DWR contracts, that's
25 why they're still running.

1 And, in fact, after 2004 there is, okay,
2 there was 18,713 megawatts that were divested.
3 Starting 2005 there's going to be 5217 under RMR
4 contracts; only 960 megawatts with the DWR
5 contracts. West Coast Power has -- all of our
6 power right now is signed up to DWR. And our
7 contracts expire at the end of '04.

8 And after ours are gone, there's only
9 those of the Williams plant, that's it. Retired
10 about 2000 megawatts. So what's left is about
11 10,590 megawatts of generation potentially at risk
12 for economic retirement.

13 And what's happened is, for example,
14 yesterday Mirant retired 600 megawatts at
15 Pittsburg. We've retired over 350 megawatts. I
16 think Reliant has announced or is going to
17 announce or it's in the press about the Atawanda
18 facility potentially being retired.

19 So what we did is we took the CEC's
20 electricity supply and demand balance, a report
21 that was put out earlier this year, and we started
22 in 2005, and there's the one-in-two demand and
23 one-in-ten demand. These are all your numbers
24 from the CEC numbers.

25 Then we have your supply line at the

1 top. And everything looks pretty good from that
2 supply line. But if you look at taking out
3 potentially the at-risk capacity, meaning the
4 capacity that does not have power contracts, that
5 show potentially at risk. If they can't recover
6 their cost in the marketplace, in the energy
7 marketplace, they're subject with making decisions
8 on how long they're going to run at a loss. And
9 it's not going to be forever.

10 The other thing about this graph which,
11 to me, this is the most critical -- if there's
12 nothing else you remember about this presentation,
13 it's this graph.

14 This is assumed an average hydro year
15 for the supply side. You can't really assume an
16 average hydro year is going to be there every
17 year. So if you have a bad hydro year in the
18 next, '05, '06, '07, we've got serious problems
19 there.

20 And it also assumes throughout the
21 report there's a lot of assumptions that the RMR
22 or reliability contracts are going to be there for
23 as long as needed. And I'll just give you an
24 example that that may or may not be true.

25 The CT I talked about earlier that we're

1 retiring at the end of this year, that was
2 designated RMR by the ISO for 2004. So we went to
3 the ISO, said fine, if we're going to run this
4 plant and be available we have to make some
5 capital upgrades.

6 So we submitted -- the way it works is
7 you submit your capital upgrade request to the
8 ISO; and the ISO either approves or disapproves
9 it. And they came back and they did not approve
10 it. So therefore we're left with the choice of
11 having to retire that unit. Because we can't
12 recover the cost just in the marketplace. So that
13 unit's being retired.

14 And that's the issue of RMR. That older
15 plants, it's going to cost more and more capital
16 to upgrade. If you have RMR, those are only one-
17 year contracts. Nobody's going to -- it's hard to
18 invest capital with one-year contracts.

19 Now we do, West Coast Power, we support
20 the new efficient generation for California. We
21 really do. And hope to one day be able to build
22 some ourself. The new generation, we think, will
23 not be available till '06 or '08 or even later,
24 based on the market conditions that we're seeing
25 today.

1 So we believe that existing generation
2 will play a critical role between now and when new
3 resources come online. However, the viability of
4 these existing generation requires power
5 contracts.

6 As I said before, due to the proposed
7 market design, which mitigates market prices to a
8 nonsustainable level, this is for the older power
9 plants I'm talking about.

10 The redevelopment of efficient
11 generation on existing sites also requires
12 contracts in order to warrant the necessary
13 investment.

14 We strongly urge new market structure
15 rules needs to be implemented with urgency. What
16 I mean by that, MDO2, procurement, the results of
17 this report, which will go to our Legislature and
18 they will come up with their own set of rules
19 probably. Hopefully they'll all be the same, but
20 you know, it's been known to happen where you have
21 two different sets of rules in California.

22 So, my point on that is that we really
23 need to get some stability here and get the rules
24 set in place.

25 Just to show you the immediate need of

1 this, there are some challenges that are
2 happening. For example, on September 5th Edison
3 hit its all time record peak load, all time, okay.
4 And on July 16th, the ISO came near its all time
5 record peak load.

6 That tells me two things. One, load is
7 growing. Two, conservation is retreating from the
8 previous levels of the last year or so.

9 Approximately 20 percent of the existing
10 ISO capacity, this is the divested generation is
11 not contracted for after 2004, repeating what I
12 said earlier -- existing generation is being shut
13 down as significant assets are nearing the end of
14 their useful operating lives. Cancellation and
15 delays of numerous projects increases the need for
16 existing plants, and redevelopment on existing
17 sites.

18 Both the utilities and the merchant
19 generator are still not credit worthy which makes
20 the finance-able contracts more critical for
21 investment in redevelopment. And capacity markets
22 would help, you know, besides an energy market.
23 But they're just being discussed conceptually now,
24 and they're years away from implementation.

25 I realize that this is not the body that

1 can order utilities to sign contracts. However, I
2 think recommendations in this report would go a
3 long way to that. And we'll be submitting some of
4 these detailed recommendations.

5 Some of this is, I think most of you
6 probably already know this, but I'm going to
7 repeat it anyway, you know, the value of the
8 existing resources. And some of the same things
9 our friends from Watson Cogeneration said earlier
10 today. Voice the need to build new transmission
11 lines and gas pipelines located in close proximity
12 to the load. As a matter of fact it's a good bet
13 that our power is keeping the lights on here in
14 this room today.

15 Provides voltage support and stability
16 for California's transmission system. Our Encina
17 plant, located in Carlsbad, it's needed for San
18 Diego to import power from SONGS. It's needed
19 there in that location.

20 The existing resources do not require
21 long-term financing, and therefore can accept
22 shorter term power contracts, or what I've termed,
23 my own term, transitional contracts. There
24 perhaps needs to be something transitional
25 contracts between now and when the next wave of

1 new generation is built.

2 With proper maintenance and capital
3 investment existing units can remain a viable and
4 reliable and valuable part of the infrastructure.
5 We do need a commitment to short and intermediate
6 term contracts with capacity payments in order to
7 remain viable.

8 Another key issue with, that I don't
9 think the report really picks up a lot on, is
10 redevelopment at the current sites. We think that
11 developing a new plant on an existing site is
12 beneficial for California because it can provide
13 quickly -- that's the key word, quickly -- provide
14 efficient, environmentally benign sources of new
15 capacity. It's already an existing footprint in
16 the community. Existing sites are already
17 interconnected to transmission grid and to the gas
18 LDC. Existing sites already have many of the
19 required permits to operate. And as we said
20 earlier, are located near the load. And avoids
21 new transmission lines and gas pipelines.

22 We will need, however, longer term
23 contracts in order to warrant the investment. And
24 I don't mean a 30-year contract, either.

25 So, in closing I'll say that we do

1 remain committed to California. We do believe
2 that the report is heading in the right direction.
3 We support the goals of the report. We support
4 the goals of the energy action plan. However, we
5 just think that the issue of existing resources
6 needs to be dealt with in a little more detail and
7 we haven't seen it yet. We've seen a sentence
8 here, a sentence there and that's about it.

9 I'd be glad to answer questions. And we
10 have some other folks here who can help answer
11 questions if we need to.

12 PRESIDING MEMBER BOYD: Thank you, Mr.
13 Blue. I would just note that in yesterday's
14 hearing we did have somewhat of a discussion of
15 the subject, so you're not alone in your concern,
16 anyway.

17 Commissioner Geesman, do you have
18 comments?

19 COMMISSIONER GEESMAN: I wonder why you
20 feel that the short-term and long-term procurement
21 plans that the utilities have filed with the PUC
22 don't place adequate value on the existing
23 resources.

24 MR. BLUE: I don't disagree with that.
25 I guess it's a timing issue. How long is that

1 going to take? When is that going to happen?

2 We --

3 COMMISSIONER GEESMAN: The PUC's going
4 to make a decision of some sort in December.

5 MR. BLUE: Well, our experience to date
6 is that we have actually had meetings with the
7 utilities and they are not quite willing yet,
8 until they get that advice from the -- and our
9 issue is that we've got to start making decisions.
10 You know, and this is truly more of a timing issue
11 for us.

12 If we had all the time in the world we
13 could wait for that to come through. My guess is
14 it's unclear if that's going to be challenged, you
15 know, by other parties. And when that's actually
16 all going to happen. If there's going to be an
17 RFP, and when's all that going to happen.

18 Some of these existing sites, in my
19 opinion, are not conducive to RFPs. If you need a
20 plant at a certain location, you know, how do you
21 have an RFP in that location?

22 I'm of the opinion that, you know, there
23 might be some need for bilateral, you know,
24 discussions.

25 COMMISSIONER GEESMAN: But isn't that

1 where the RMR contracts come in? Isn't that where
2 the RMR contracts come in, where you need a plant
3 at a specific location --

4 MR. BLUE: Right, well, as I said
5 earlier, RMR contracts are only one year at a
6 time. And at some point you need capital
7 improvements to keep the plant maintaining. And
8 the cost is going to go up and up, and the ISO, as
9 we just witnessed, rejected our cost increase.

10 And I know San Diego --

11 COMMISSIONER GEESMAN: Why do you think
12 that was?

13 MR. BLUE: Huh?

14 COMMISSIONER GEESMAN: Why do you think
15 that was?

16 MR. BLUE: Well, they said -- I don't
17 exactly know; I wasn't, you know, I wasn't on
18 the -- do you know exactly why they said that?
19 There's more of they said they can get it cheaper
20 somewhere else. So, --

21 COMMISSIONER GEESMAN: If that's the
22 case isn't that what we're supposed to do?

23 MR. BLUE: I'm not --

24 COMMISSIONER GEESMAN: And I don't want
25 to substitute our judgment for theirs, I'm pretty

1 sensitive to trying to stay focused on --

2 MR. BLUE: Right.

3 COMMISSIONER GEESMAN: -- the
4 responsibilities that the Legislature has provided
5 to this Commission. And not do either the PUC or
6 the ISO's job for them.

7 MR. BLUE: Right.

8 COMMISSIONER GEESMAN: But if they made
9 a determination on that one combustion turbine
10 that they didn't want to be on the hook for the
11 capital improvements, --

12 MR. BLUE: Right.

13 COMMISSIONER GEESMAN: -- I think we're
14 hard pressed to second guess that.

15 MR. BLUE: Oh, and I'm not -- yeah,
16 that's a done deal. That's an example.

17 COMMISSIONER GEESMAN: But then I go to
18 the utility procurement plans, and I'm taking from
19 your remarks that you don't feel that the utility
20 procurement plans adequately reflect the intrinsic
21 value from these existing resources.

22 MR. BLUE: Correct, and I think that the
23 procurement plans also make a lot of assumptions
24 about the older plants.

25 And it's just -- I mean we would like to

1 build all new plants and take down the old.
2 They're old. They're at the end of their life.
3 But it's this transitional issue that I'm trying
4 to raise to everybody that we really need to focus
5 on how we're going to deal with that transitional
6 issue.

7 And I agree, at the end of the day the
8 new plants should come in and displace the older
9 plants. We have no problem with that. But we're
10 concerned that nobody's really focusing on the
11 next three- to five-year period on how we're going
12 to keep the existing plants around.

13 Because if we're left with an RMR
14 contract that goes -- it's a one-year contract at
15 a time, we'll be hard pressed to, on our own, go
16 out and invest capital to keep the thing going if
17 we're not, you know, it's hard to invest in a one-
18 year contract.

19 COMMISSIONER GEESMAN: But I guess my
20 presumption, and I could be wrong, my presumption
21 is that the three investor-owned utilities are
22 focused on perhaps nothing as intently as the next
23 two to three years. And --

24 MR. BLUE: Well, if you read their
25 recommendation they plan to rely on the spot

1 market for a lot of their, you know, reserves, so
2 to speak. They want to have a 7 percent reserve
3 margin. You know, that's kind of their
4 recommendation is to go short, again, and --

5 COMMISSIONER GEESMAN: And their belief
6 is that they can get it cheaper, correct?

7 MR. BLUE: I don't know about that. I'm
8 just saying my point today, my main point is to
9 raise the issue that plants are going to start --
10 we're going to have to start making decisions, and
11 plants are going to start being economically
12 retired.

13 And, you know, there's going to be --
14 there's a potential gap there. I think we really
15 need to figure out how we're going to deal with
16 that. And I don't think we're getting enough
17 attention, either in this report, or the energy
18 action plan, or anywhere, to be honest.

19 And as we go along, you know, I've said
20 in other hearings, you know, not here, but tick-
21 tock, tick-tock, the clock is moving. That's my
22 point. That's my main point.

23 COMMISSIONER GEESMAN: Thank you.

24 PRESIDING MEMBER BOYD: Thank you. Mr.
25 Lloyd, you wanted to follow on, and then just so

1 she knows, Sigrid Hawkes sent a note up that she
2 does have a timing constraint, so she'll be next.

3 MR. LLOYD: I'll just take a minute. I
4 appreciate the opportunity. My name's David
5 Lloyd. I work for NRG Energy, and I'm an Officer
6 of these little companies that have been described
7 up on the board. I live in Carlsbad, California.
8 I spend a lot of time in El Segundo, as well.

9 I've been doing energy projects in
10 California since the PURPA enactment back in the
11 '80s. I've helped build the first financially
12 viable 800 windmills up in the Altamont Pass.
13 I've built a number of little wood-burning plants.
14 Just so you know, a lot of 89.5 megawatt power
15 plants to avoid your jurisdiction.

16 COMMISSIONER GEESMAN: Forty nine and a
17 half.

18 MR. LLOYD: I'm sorry, 49.5. I also was
19 involved in the ten-year project to get the permit
20 for the Crockett facility which, in one order was
21 said would not ever be needed until at least 2005.
22 I can tell you from the time it turned on in 1996
23 it's been baseloaded ever since, even though it's
24 a fully dispatchable plant.

25 So, I guess the one message I'd like to

1 add to all of this is while you may not be the one
2 who tells the PUC to enter into contracts for our
3 energy, it's critically important that you help
4 set the goal for what we need for reserve.

5 I think coming out of the regulated
6 utilities where I spent my career before going
7 into independent power, I know we can build plants
8 cheaper than the utilities. I know we can operate
9 them cheaper. And I know we can make them more
10 reliable.

11 But what we can't do, and someone has to
12 do at a governmental level, is to set what is the
13 appropriate reserve margin. We cannot count our
14 hydro as if they are 100 percent there every year.
15 And that's how we got in trouble in 2001. That's
16 at least my version of the world.

17 We practically starved to death as
18 independent generators in California the year
19 before. We were writing our plans for how to exit
20 this business. We're doing the same thing this
21 year, writing our plans on how to exit this
22 business in two, three years when our contracts go
23 away.

24 Because if you don't set a reserve
25 margin correctly the utilities will not buy power.

1 And right now the market is collapsed and it's
2 failed, so bilateral contracts is the only way
3 this thing is going to work. So if you're going
4 to encourage wind production, for instance, one of
5 the best wind resources in San Diego; there's not
6 a single windmill down there that operates
7 commercially. And yet that's the best wind
8 resource. Because somebody's going to have to
9 upgrade the transmission and put out a contract to
10 buy the power for eight or ten years so that you
11 can do it.

12 I'd love to go build some windmills, but
13 it's out of the question because they're not the
14 kind of resource that someone like my company is
15 going to bet on, on a market basis.

16 So, there's some things that need to be
17 done. You're the agency that sets that reserve
18 margin. You're the one who's going to call what
19 it's going to be in the future. And that's the
20 tough part of this game. Because someone's got to
21 pay for reserve.

22 In the old days the utilities built that
23 into their resource plans. And they would fudge
24 and beg, borrow and steal to make sure that they
25 would always have enough power. They did a great

1 job. I think it's more expensive when they do
2 that, but they did a great job.

3 And when all of that failed it's because
4 someone failed to project what our power needs
5 were going to be. And when we had a culmination
6 of events where you had bad hydro and very hot
7 days in the entire west, we just flat ran out of
8 power.

9 And I think your job is to help predict
10 what the future's going to be. Set that bar
11 correctly so that then the market or the
12 regulatory forces can follow.

13 So that's what I would urge you to do,
14 is don't be pulled into the siren song that we've
15 got all this hydro and can count it, because you
16 just can't.

17 And you're going to have to pay, if you
18 want that insurance policy to pay, you're going to
19 have to pay the premiums every year in advance;
20 not after the fact.

21 If I had a message today, that would be
22 it. Thank you. Any questions, I'm happy to
23 answer.

24 PRESIDING MEMBER BOYD: Thank you very
25 much. Now, Sigrid Hawkes.

1 MS. HAWKES: Thank you very much. I
2 didn't understand the timing system, and so when I
3 signed up I didn't know I had to say I had a time
4 constraint. Thank you very much.

5 Good morning, Commissioners, and thank
6 you for this opportunity to comment on the 2003
7 Integrated Energy Policy Report. My name is
8 Sigrid Hawkes, and I'm here today on behalf of the
9 Gray Panthers of the San Fernando Valley. And it
10 looks like I might be the only actual ratepayer
11 here, which is an interesting point.

12 The ultimate goal of your effort is
13 praiseworthy, but I see great danger in the
14 reality of implementing an arbitrary cut in fuel
15 use by 15 percent from today's level. This is the
16 focus of our opposition.

17 We believe it is unrealistic to rely on
18 the federal government to force a change in fuel
19 efficiency standards. Hence, you will be left
20 making the reduction by other means.

21 We know from your report reducing
22 California's petroleum dependence that your method
23 for reduction would create great hardship on low
24 income seniors and all poor people who cannot
25 afford to pay greater taxes.

1 You have suggested a 50-cent-a-gallon
2 gas tax increase, a phenomenal increase for people
3 who make trips to the store for groceries, visits
4 to the doctor's office, and necessary drives to
5 the pharmacist for critical medicines. When we
6 use the car it is often of the utmost importance.

7 If you tack on two cents a mile for
8 every mile driven, two cents doesn't sound like
9 much. But it can add up quickly to many members
10 of the Gray Panthers who are on fixed incomes, and
11 most are.

12 Finally, you have suggested pay-at-the-
13 pump insurance as a new an additional cost,
14 estimated to add 43 cents to a gallon of gas.
15 This just isn't a realistic proposal. I know more
16 insurance horror stories than I have time to share
17 with you.

18 Your proposal relies on the federal
19 government doing something it is not likely to do.
20 Your secondary means of achieving a reduction in
21 fuel use relies on suggestions that carry a
22 devastating burden that will hurt all
23 Californians, not just seniors.

24 Thank you. And here is a copy with my
25 address on it.

1 PRESIDING MEMBER BOYD: Thank you very
2 much, Ms. Hawkes. I would just like to comment
3 that the issues that concern you the most, the gas
4 tax and pay-at-the-pump, while they were issues
5 that were studied, both by the consultants hired
6 by the Air Resources Board and Energy Commission,
7 and to some degree, even by the staff, and
8 contained in the initial reports, which were kind
9 of just a revelation of all conceivable possible
10 things you can do to address the problem they were
11 asked to address, i.e., reduce petroleum
12 dependence.

13 The issues you specifically referenced
14 were not the issues that were embraced, either by
15 the full Energy Commission or the Air Resources
16 Board in the final version of that report.

17 And so I don't want you to sit at home
18 every day concerned that if we fail to convince
19 the federal government that's just going to
20 automatically happen. I think we'd go through a
21 whole new iteration of studies on how to address
22 the problem should we fail.

23 We don't intend to fail, but your fears
24 are well concerned. The ability of the State of
25 California of late to convince the federal

1 government --

2 MS. HAWKES: Yeah, we know what FERC did
3 to us.

4 PRESIDING MEMBER BOYD: Right -- to do
5 things has, -- but we do think in this arena of
6 increasing vehicle efficiency, and it gets back to
7 what I said earlier about efficiency in all energy
8 areas, has become the number one call.

9 We do think pointing out to the federal
10 government, that they said that that's the number
11 one issue in electricity and natural gas. It
12 certainly is fitting that that be a number one
13 issue in the use of petroleum, which we're all
14 getting more and more concerned about.

15 And so we think there will be a lot of
16 allies out there to join the State of California
17 in the call upon the federal government to address
18 this issue. Failing that, some many years from
19 now, then people will have to review this.

20 But there is no automatic fallback to
21 that which concerns you. And I'm sure we'd hear
22 quite an outcry. Those of us experienced in
23 government, like Commissioner Geesman and myself,
24 have totally recognized what is academically
25 possible, was recommended in the report, and

1 what's politically sale-able in this state are
2 something else.

3 And these kinds of issues, as
4 meritorious as they may be, and as much as the
5 fact that academically they might work, they're
6 politically unacceptable, and were rejected by us.
7 So, hopefully --

8 MS. HAWKES: Well, that's good. I mean
9 because it's people who are on a fixed income who
10 are most often asked to bear the burdens for
11 anything. And I mean, it's the whole idea of, you
12 know, the taxes might look great and, as you know
13 the Green candidate has said, none of the
14 candidates in the lead right now for the
15 governorship are willing to say that the people at
16 the top levels of income should pay the same rates
17 as the people in the middle income are paying
18 right now.

19 And basically what we're saying is don't
20 forget the very poorest and those on fixed
21 incomes.

22 PRESIDING MEMBER BOYD: I appreciate
23 your message. My hair is grayer than yours. I'm
24 approaching those years --

25 (Laughter.)

1 MS. HAWKES: Yes, but I'll bet you have
2 more income -- seriously, I represent people who
3 have incomes that are in the \$400 and \$500 a month
4 range. And unfortunately most people in your
5 position and in government do not appreciate how
6 hard it is to get by on that little amount of
7 money.

8 So, those are the people I'm speaking
9 for.

10 PRESIDING MEMBER BOYD: I appreciate
11 your message.

12 MS. HAWKES: Thank you.

13 PRESIDING MEMBER BOYD: Thank you very
14 much. John DeWitt, DeWitt Petroleum. We lost
15 John DeWitt.

16 Dan Douglass, Alliance for Retail Energy
17 Markets. I'll put Mr. DeWitt at the bottom, maybe
18 he just stepped out of the room.

19 MR. DOUGLASS: Thank you very much,
20 Commissioner. Good morning. My name is Dan
21 Douglass. I represent the Alliance for Retail
22 Energy Markets. We are a regulatory alliance of
23 energy service providers who serve most of the end
24 users on direct access in the State of California.
25 Not all, but a very significant majority of those

1 customers.

2 And we're here today to commend the CEC
3 for putting together what we think is a very
4 comprehensive and excellent report. And we echo
5 the compliments that have been extended to you by
6 prior speakers.

7 We're really appreciative of the fact
8 that the state seems to be moving away from a
9 crisis management mode to a more thoughtful
10 planning process for the state. And we think that
11 move from crisis mode to thoughtful planning is
12 something that's going to be very beneficial for
13 all of the state's ratepayers, consumers and the
14 market participants.

15 We also are appreciative of the fact
16 that the CEC has been working cooperatively with
17 the CPUC and the CPA in the development of the
18 joint energy action plan. But we will also say
19 that we think the Integrated Energy Policy Report
20 is a far superior document, particularly with
21 regards to the issue of retail competition.

22 We were very glad to see that one of the
23 primary recommendations was that the state should,
24 and I quote, "explore a retail market structure
25 that promotes customer choice" as we thought it

1 was rather glaringly absent from the energy action
2 plan.

3 And more particularly we were pleased to
4 see on pages 19 and 20 of the report support for
5 consideration of implementation of a core/noncore
6 market structure.

7 And at this point I need to note at this
8 time that kind of through the luck of the draw I
9 was called on to speak after Mr. Jones of Golden
10 State Power Co-op. And I have exactly the
11 opposite position from him. And I'd be perfectly
12 willing to talk with Mr. Jones, wherever he
13 went -- ah, there he is --

14 MR. JONES: You'll have to finish your
15 speech --

16 MR. DOUGLASS: Well, we're both Valley
17 residents, so maybe we can -- I'm out in Woodland
18 Hills, so maybe we can talk.

19 But seriously, I do want to talk about
20 that, and talk particularly about the values of
21 core/noncore. Because I think the merits of a
22 core/noncore market structure clearly outweighs
23 the possible, what I would characterize as public
24 relations type concerns that Mr. Jones expressed.

25 And that a rational analysis of the

1 issues show that you can avoid subsidies to large
2 customers. You can insure that they pay their
3 fair share of costs. And moreover, I would note
4 that if we were to go back to a strictly
5 vertically integrated market structure where
6 direct access did not exist, we'd have again an
7 monopsony situation where we'd have very few
8 buyers -- very few sellers, namely the utilities,
9 and a lot of buyers.

10 And I would think that Golden State
11 Power Cooperative and other builders of generation
12 ought to be aware that a vibrant and healthy
13 retail market offers them potential buyers for
14 their power.

15 And I can tell you that having once upon
16 a time been president of a natural gas marketing
17 company, that our firm certainly would have been
18 far less successful if we had only been able to
19 sell gas to utilities and not to end users or
20 other retail suppliers.

21 There are several benefits that would be
22 achieved should a core/noncore market structure be
23 adopted. I mean first of all it would stabilize
24 the utilities' respective customer bases. This is
25 an issue that has been repeatedly emphasized in

1 the procurement docket. As the utilities have
2 said, we need certainty; we need to know for whom
3 we are to buy power. Establishment of a
4 core/noncore market structure gives far greater
5 certainty.

6 It also creates a stable market to which
7 ESPs can market. It's notable that when direct
8 access first opened up now five and a half years
9 ago, there was over 100 firms that registered to
10 do business in California as energy service
11 providers.

12 A recent filing by Southern California
13 Edison, I think indicated that they had 16
14 certified ESPs doing business within their service
15 territory. And PG&E indicated a lower number, I
16 think in the range of 12 or 14 ESPs.

17 Moreover, a core/noncore market offers
18 certainty for end use customers. That they have
19 the ability to go out and seek competitive supply;
20 that they have the ability to exercise what I
21 think we ought to consider to be a fundamental
22 right, and that's the right of customer choice.

23 We have the right every day to drive
24 down the street and decide whether we're going to
25 stop off at Shell or ARCO or Chevron or whomever.

1 And I submit that we ought to have exactly the
2 same right when it comes to purchasing
3 electricity.

4 And most importantly, and I think this
5 was dealt with in the discourse between
6 Commissioner Geesman and Mr. Jones, I think core/
7 noncore will definitely encourage and provide
8 incentives for the construction of new generation.
9 Because it provides a market other than simply the
10 utilities to buy power. And to buy power under
11 longer term commitments.

12 It's interesting, too, to point out that
13 support for a core/noncore market is not simply
14 coming from the market segment I represent, energy
15 service providers. It's interesting to look at
16 the filing, for example, of Pacific Gas and
17 Electric in the procurement docket.

18 PG&E said, and I quote, "the core/
19 noncore market offers many attractive features.
20 First the structure offers large customers maximum
21 flexibility to manage their electricity commodity
22 needs, just as they do for natural gas. And most,
23 if not all, other factor inputs. The structure
24 would also provide considerably more certainty for
25 the utility and policymakers regarding electricity

1 commodity resource planning. Unlike today's
2 structure under a core/noncore structure, the
3 utility and policymakers will know with increased
4 certainty for whom they need to plan, core
5 customers, and for whom they do not need to plan,
6 noncore customers."

7 And finally they say, "Moreover,
8 considerable experience with the core/noncore
9 model used in the gas industry shows that large
10 customers can manage their energy needs directly
11 without increasing the likelihood of creating
12 additional stranded costs for the system as a
13 whole."

14 Now, the PG&E reference to experience in
15 the gas industry has particular relevance to me,
16 as I worked for 15 years for Southern California
17 Gas Company. And back in, I believe it was 1987 I
18 drafted and negotiated the first gas
19 transportation agreement in the State of
20 California, which was with ARCO, and it was to
21 supply natural gas to their KRCC and Sycamore
22 power plants.

23 And I can tell you that as soon as we
24 filed that contract for approval with the CPUC,
25 there was hue and outcry from any number of large

1 commercial and industrial natural gas customers
2 who also wanted the same rights that we were
3 offering to extend to ARCO, to buy gas on their
4 own from whomever they chose.

5 And when the State of California decided
6 to go to a core/noncore market I moved to the
7 marketing department of Southern California Gas
8 and ran noncore marketing for the utility. And so
9 I can tell you I have a good deal of experience in
10 working in the core/noncore market. And I believe
11 it works. It works, it works for end users, it
12 works for the utility, and it can be implemented
13 in a way so that core customers are not harmed.

14 And I really believe in this, and wish
15 that you would continue to go forward with your
16 recommendations of endorsement of a core/noncore
17 market.

18 We further hope that your
19 recommendations with this regard would be expanded
20 to include cooperation with legislative bodies.
21 You're obviously aware that we had legislation
22 last year, or this past year, AB-428, that
23 proposed a core/noncore market. That we're likely
24 to see further legislation introduced next year.

25 And we think that the continuation of

1 efforts at the CEC will be helpful in developing
2 sound legislation to enact a market that does
3 protect the interests of those customers who are
4 not noncore customers. Because we have to have a
5 market system that avoids subsidies. We have to
6 have a market system that is fair and equitable,
7 but we ought to allow the right of customer
8 choice. And I think we can accomplish all of
9 those goals simultaneously.

10 I would also say it's important on a
11 related topic to understand that the issues and
12 causes that led to the suspension of direct access
13 in the first place have now largely been addressed
14 and have been resolved.

15 If we look back to when AB-X1 was
16 passed, the direct access was suspended in the
17 aftermath of the DWR contracts. There was a fear
18 that there would be a mass exodus from bundled
19 service that would leave a declining customer base
20 to bear the brunt of the DWR contracts.

21 There was concern about the utilities
22 were either in bankruptcy or on the verge of
23 bankruptcy; that they had conceded their power
24 purchasing responsibilities to the DWR. And there
25 was concern that there needed to be some sort of

1 customer base stability to insure the successful
2 issuance of the DWR bonds.

3 Well, now it's October of 2003, and
4 quite simply, those matters have been resolved.
5 The bonds have been issued. The utilities' credit
6 standing are improving, as has been referred to
7 earlier. The utilities have resumed power
8 purchasing, and perhaps most importantly, the
9 Public Utilities Commission has imposed exit fees
10 so that direct access customers pay their share of
11 DWR contract costs.

12 And, you know, I would note at this
13 point that in the discussion between Commissioner
14 Geesman and Mr. Jones, the Commissioner mentioned
15 the Senator Bowen remark here about ordering a
16 bottle of wine and then not waiting for the bill.

17 I wasn't at the hearing when that was
18 mentioned by the good Senator, but I was amused by
19 it. I just thought it was targeted at the wrong
20 market participant.

21 Let's look at the facts here. Direct
22 access customers do not use DWR power. Yet they
23 pay \$27 per megawatt hour just to have the
24 privilege of participating in direct access.

25 Now, by comparison, residential and

1 small commercial customers whose demand does not
2 exceed 130 percent of baseload use DWR power, but
3 pay nothing for it.

4 You know, given these facts, it seems
5 like indeed somebody's getting a free drink. But
6 the happy hour, or perhaps I should call it the
7 happy decade, I think is being paid for by people
8 who paid exit fees as opposed to simply those who
9 consume the power but don't pay for it.

10 In short, I think there is no reason for
11 direct access to continue to be suspended. And
12 your recommendation that we give serious
13 consideration to a core/noncore market is, to me,
14 a very positive and constructive contribution to
15 the energy dialogue in this state.

16 We thank you for it. And I thank you
17 for the opportunity to present these comments.

18 PRESIDING MEMBER BOYD: Thank you.
19 Comments, questions?

20 Thank you very much. We appreciate it.

21 MR. DeWITT: Mr. Chairman, I'm Mr.
22 DeWitt; I was down the hall when you called my
23 name earlier.

24 PRESIDING MEMBER BOYD: Yeah, okay, I've
25 got you at the bottom of the pile now.

1 MR. DeWITT: Okay.

2 PRESIDING MEMBER BOYD: Jim Frassetto.

3 MR. FRASSETT: Good morning,
4 Commissioners. My name is Jim Frassetto. I work
5 with a very small electrical repair company in
6 Wilmington, DeMaria Electric. We are a company of
7 35 employees, and most of our business is
8 repairing electric motors out of refineries and
9 power plants. And I'm here today to make my
10 comments on the policy plan.

11 I don't have a whole lot of notes here
12 because I only received this briefing three days
13 ago, so I did my best to put my comments together.
14 And I'll try and stay on target as best I can.

15 In the beginning of the executive
16 summary here it speaks highly of the state's
17 position in enhancing both the electrical power
18 crisis and also the natural gas crisis by
19 building, and I think the actual verbiage here is,
20 the state has added over 9500 megawatts of
21 electricity.

22 And I would addend that to say, or amend
23 that to say that it permitted the building of new
24 power plants that provide 9500 additional
25 megawatts of electricity.

1 It also says that the state increased
2 natural gas pipeline capacity by 25 percent. And
3 storage facilities by 10 percent. Which I would
4 also say that the state permitted those things to
5 happen.

6 When we get down to the petroleum area
7 we see that the California refiners are completing
8 nearly 800 million in upgrades to meet federal
9 oxygenate requirements; without interrupting
10 gasoline delivery these upgrades are being made.

11 And those upgrades, they lend to quality
12 and not quantity within the state. I think we all
13 know that. Those upgrades are not designed to add
14 any additional supply to the marketplace, but
15 rather to upgrade the quality of the product
16 that's being put out in the refinery.

17 So, when I look at this report and I
18 look at this policy and what you're planning to do
19 here, you have implemented upgrades for the supply
20 of electricity, and you've integrated upgrades for
21 the supply of natural gas. But when it comes to
22 petroleum, your concept immediately changes. It's
23 like the hourglass got flipped over.

24 All of a sudden there's nothing in here
25 to address the supply issues that are coming by

1 the year 2010, but rather you changed the entire
2 verbiage of this report, and you focus on demand.
3 That somehow or other you're going to reduce
4 demand 15 percent below current 2003 levels by the
5 year 2010.

6 We all believe that that's going to be
7 physically impossible. But if you put it into
8 law, somehow or other you're going to get there.

9 Now the previous speaker said that it
10 would be politically -- I think your comment was
11 politically unsalvageable, or something along
12 those lines, to think that there would be a 50
13 cent tax to a gallon of gas, or a 2 cent per mile
14 tax added. But somehow or other, once you make it
15 a law, you're going to have to get there, is that
16 correct?

17 I believe that that is correct. I think
18 that once you implement this as law, you're going
19 to have to get there somehow. You're not going to
20 do anything to increase supply. You're just going
21 to put the onus on the consumer to reduce demand.
22 And you're going to pound them one way or another
23 to stop getting in their cars and driving places.

24 And this population, by 2010 is going to
25 be huge. And yet we have not gone to the place of

1 doing anything to increase the supply at all.

2 Now, you mentioned the one-stop
3 permitting process. But we haven't built a new
4 refinery in the State of California since 1969.
5 We're talking about 43 years here of not adding
6 one piece of infrastructure to the state in
7 relationship to supply. Other than maybe
8 importing some things. And that's getting more
9 and more difficult.

10 Instead, through CARB phase one, CARB
11 phase two and CARB phase three, we've knocked out
12 every single independent petroleum producer in the
13 state.

14 So instead of increasing supply, we've
15 done our best to make certain that there will
16 never be enough supply. And so my recommendation,
17 obviously, is going to be that somehow or other
18 those issues are addressed before this is made
19 law.

20 We can't have a 15 percent reduction in
21 demand sitting as law in the State of California
22 with no process for increasing the supply. And no
23 real way of getting to that 15 percent reduction.
24 Because what's placed in here as a viable means of
25 reduction is ridiculous.

1 All of a sudden in here you take 33,000
2 cars that are now running on liquified petroleum
3 products and natural gas and electricity and
4 saying that's going to save 15 million gallons of
5 gas a year. But if you do the math and divide it
6 out, that's 30 gallons of gasoline per vehicle
7 that you state in here, per week.

8 Somehow or other that energy still has
9 to be produced. We're not getting it for free.
10 You're still burning natural gas or you're still
11 burning some type of a fuel oil to make
12 electricity to make that car. So, saying that
13 you're going to reduce those things, it just
14 doesn't make sense.

15 There's nothing in here that says you
16 can get there. And yet you want to make it a law.
17 And I don't think that's viable. I think that the
18 citizens of the State of California should have a
19 better answer to what you have here than what
20 you've provided for us.

21 Because your website still says that
22 those are viable potentials out there; the gas tax
23 of 50 cents a gallon, or 2 cents a mile. Those
24 are still on your website.

25 Now, maybe they're politically incorrect

1 today, right. But so was tripling the
2 registration fees for your car. That's pretty
3 politically incorrect. But today it's law, and
4 it's happening. And so I don't think politically
5 incorrect stops anybody in the State of
6 California. I think they ramrod things through,
7 and they pound things through. And if you have a
8 law on the books, they'll continue to pound this
9 one through.

10 Thank you for your time.

11 PRESIDING MEMBER BOYD: Thank you. Just
12 let me say this is nothing more than a report to
13 the Legislature. I don't think it asks them to
14 enact law. I can't speak for the Legislature.

15 Secondly, I appreciate the fact you
16 haven't had a lot of time to read this document.
17 But I would suggest that if you can afford the
18 time that you read the subsidiary document, one of
19 the reports that is part of this whole pile of
20 paper that Mr. Kelly mentioned earlier.

21 Because actually in the details of the
22 report, and this is only a summary, there are
23 recommendations to try to enhance the supply of
24 gasoline and diesel fuel in the State of
25 California. And for us, as an agency, to work

1 with the people in charge of those activities, to
2 do that.

3 The refiners, themselves, have chosen
4 not to expand refineries. They've been invited on
5 many occasions to come and talk to the state over
6 the past three, maybe four years, about expanding
7 refinery capacity. But transportation fuel,
8 gasoline is now a world market issue, and they
9 seem to prefer to import fuel.

10 So we have said in this report that we
11 would work with them to improve the import
12 facility. And we've also suggested that there be
13 streamlining of permitting, much as we've done in
14 the transmission area, as well.

15 But in spite of all that, the staff has
16 found that it seems very difficult for the state
17 to continue to depend on just petroleum. And
18 there are suggestions that increases of other
19 alternative fuels be sought, as well, to meet the
20 obviously increasing demand of the people of the
21 state for mobility, for transportation, and the
22 fact that we'll continue to drive more vehicle
23 miles.

24 So, there perhaps is a difference of
25 opinion on approach, but there are alternatives

1 here, and no desire, I believe, on the part of
2 this organizations, to limit the mobility and
3 limit the driving potential of the citizens of
4 this state.

5 It's just that petroleum, as the sole
6 fuel, scares us; our reliance on it scares us.
7 And we think we'd better take some other steps
8 analogous to what some people are talking about,
9 other approaches, in both electricity and natural
10 gas.

11 You're entitled to a different point of
12 view, but I think that's what the reports are
13 trying to say.

14 MR. FRASSETT: I understand that. But
15 the spot market for CARB phase 3 gasoline is
16 pretty much nonexistent. So, what you're doing is
17 bringing in, you know, some raw stock that needs
18 to be blended. There's still a lot of work that
19 has to be done, even on those types of imported
20 fuels.

21 So, you know, looking at the spot market
22 today, as a savior for the supply demand of the
23 State of California, I think is wrong. That's not
24 going to work. It never works. When the
25 refineries go down, you go to the spot market, the

1 prices go through the roof. Because the spot
2 market knows that you're bleeding out, and they
3 just jack those prices up like crazy. And you and
4 I both know that.

5 So I would not be dependent upon the
6 spot market from other parts of the world to
7 supply gasoline to the State of California. We
8 have to build some infrastructure here. Somehow
9 or other we have to make it enticing for the oil
10 companies in the State of California to do
11 something that's going to provide for the
12 infrastructure for the future of the state. We
13 all know that.

14 And maybe they don't want to do it
15 today, but maybe they don't want to do it because
16 they get beat to death every time they do
17 anything. So there's a two-sided coin here. And
18 I think we have to address both sides of the
19 issue.

20 Thank you.

21 PRESIDING MEMBER BOYD: Thank you.

22 COMMISSIONER GEESMAN: Let me add to
23 that that I do think if you go through some of the
24 ancillary reports that led up to this document,
25 and which led to the Commission and ARB's adoption

1 of the AB-2076 report in July, you'll find that
2 the Commission places a very significant reliance
3 on changing the state permitting system for
4 refinery expansions and for the development of
5 additional storage facilities for imported
6 product.

7 And I think that it's probably wrong to
8 cast the supply side option as whether we build
9 another new refinery or not. I actually think
10 that refinery capacity will be expanded. It's
11 been expanding in a very slow incremental way over
12 the last couple of decades on an individual
13 refinery-by-refinery basis.

14 I think in the future the expansion in
15 capacity that you'll see will come at existing
16 refineries. But our current permitting system is
17 not well situated to take statewide interests into
18 account. It does not have a particular focus on
19 identifying all of the requirements in one
20 setting, and having those requirements met on a
21 fixed deadline, so that you get a timely result.

22 I think it is dominated by local
23 governments that have legitimate interests at
24 stake, but there are broader interests for that
25 portion of the motoring public that doesn't happen

1 to live in a community next to a refinery.

2 And I think it's an area that the state
3 can make some important progress on. And I'm
4 hopeful that we do make progress in the
5 Legislature next year.

6 As it relates to the demand side,
7 though, I think it's important not to be too
8 dismissive, based perhaps only on the results of
9 the last couple of years in Congress, on the
10 likelihood that at some point in time there will
11 be an improvement in CAFE standards.

12 And I don't mean trying to push
13 everybody into a little golf cart type vehicles.
14 I think some of the development of hybrid
15 technology would suggest that even the largest
16 vehicles in the future may be able to make some
17 radical improvements in their fuel efficiency.

18 The Public Policy Institute of
19 California surveyed Californians earlier this year
20 and found that 70 percent of all Californians
21 would like to see a significant improvement in
22 CAFE standards. And that 59 percent of all SUV
23 drivers would like to see a substantial
24 improvement. SUV drivers, you know, the people
25 that Ariana and others love to demonize --

1 MR. FRASSETT: Right.

2 COMMISSIONER GEESMAN: -- there is a
3 strong societal consensus, at least within this
4 state, that we need to make some significant
5 improvements in the efficiencies of our vehicle
6 fleet.

7 Just because Congress has not yet heard
8 that message doesn't mean that it isn't important
9 to raise it. And I, for one, don't think that the
10 failure to accomplish that in the near term is
11 ever going to produce an impetus to raise gasoline
12 taxes, or I think as one of the witnesses said
13 before, pay-at-the-pump insurance, or any number
14 of other economic oriented alternatives.

15 I think the public has been pretty clear
16 they don't want that. They prefer to see the
17 improvement in efficiency gain the regulatory
18 side. And in the '70s and '80s we were able to
19 accomplish that. We stopped trying about 15 years
20 ago. And we need to get back to that.

21 MR. FRASSETT: I think that's a great
22 point. I thank you for it. My only real point
23 here is I think you guys did a great job with the
24 electrical crisis. I think you did a great job
25 with the natural gas crisis.

1 I think you can do a great job with this
2 problem, too. But it has to be looked at at a
3 different level than we're looking at it now.

4 PRESIDING MEMBER BOYD: Thank you.
5 Shaun Lumachi. Long Beach Area Chamber of
6 Commerce. Apparently we've lost him.

7 Now Mr. DeWitt.

8 MR. DeWITT: I was further down the hall
9 last time.

10 (Laughter.)

11 PRESIDING MEMBER BOYD: And perhaps you
12 are our last witness, unless the other gentleman
13 reappears.

14 MR. DeWITT: Thank you, Mr. Chairman,
15 Mr. Boyd, the Committee. My name is John DeWitt.
16 Our family operates DeWitt Petroleum, based in El
17 Monte since 1945. We're a wholesaler and retailer
18 of petroleum products. Our primary customers are
19 retailers, small fleets, farmers, cities, school
20 districts, agriculture. We employ 84 people.

21 Maybe it comes with my age, but when I
22 see recommendations coming from an august body
23 that has a background of a staff that understands
24 what's going on, to reduce fuel use by 15 percent,
25 I was listening to the previous speaker. I'm

1 somewhat paranoid because I've watched what
2 happens when outside agencies regulate.

3 I went through the shortage periods of
4 the '70s; I even remember the little red stamps we
5 had in the late '40s when we used to go into
6 Whittier to pick up gas at Urich's Gas Station.

7 When you recommend these things with the
8 amount of effort that you've spent on it, my
9 concern is our legislators are going to see that
10 15 percent, reduce demand 15 percent, and they're
11 not going to spend the time to look at the
12 subsidiary documents. I mean that's not been my
13 take on what happens in agencies and the
14 Legislature is not especially beneficial,
15 especially to small businesses.

16 The concern for small businesses is very
17 limited. We don't have a real strong voice in
18 what goes on in Sacramento. And those things
19 impact us greater than it does the larger
20 companies. Our ability to respond to all of these
21 issues is based primarily because we're all trying
22 to keep our nose above the waterline.

23 What I'm hopeful that happens after you
24 go through this hearing process is that we come up
25 with something that number one, increases supply

1 so the dealers that I have taken care of over
2 years and the retailers and the end users of
3 petroleum products are not subject to the spikes
4 that we have had.

5 And I think your own staff has mentioned
6 that a lot of the spikes in the pricing and the
7 disruption has been caused by some of the
8 regulatory impacts. I don't know how you're going
9 to smooth that out.

10 When my grandkids now -- to balance that
11 on the other side -- when my grandkids can now
12 play soccer without coughing their lungs out, I
13 think that is just terrific. And I don't think
14 anybody in this room is interested in doing
15 anything that's going to harm their kids or their
16 grandkids.

17 And the toughest thing I see happening,
18 not only from your recommendations, but to follow
19 on with the legislation and regulations is how do
20 you balance out the demands that come from the
21 feds on the EPA level, and how you balance out the
22 requirements for health, and still maintain a
23 viable economy.

24 You know, in the early days when we
25 started in El Monte we had a lot of dairies and

1 when there was a lot of the overflow from dairies,
2 we'd ship it down to Ted Keeshe's (phonetic)
3 Nursery. Well, we had a nice thing working
4 together with the various nurseries and the
5 dairies from Driftwood Dairy and all the rest,
6 which is tough to do nowadays. When you're
7 dealing with the economic issues and the
8 regulatory issues, the tradeoff between the two is
9 not symbiotic in many cases. It's not equal.

10 My hope is that someplace within your
11 staff's and with your mindsets, that we can
12 establish a couple things. Number one, first do
13 no harm. I'd love to see our Legislature adopt
14 that Hippocratic oath.

15 Number two, there is no free lunch. And
16 whenever we do these things, within this economy,
17 to maintain our grandkids' health, somebody's
18 going to pay the bill.

19 Just as a sidelight, I just did a
20 little -- you mentioned 17 billion gallons of fuel
21 being used in California. I was looking at the
22 1.1 billion per month number that I read. And I
23 deduced that if we lived in Nevada, Arizona or
24 Oregon, the California consumer could save \$250
25 million to a half a billion dollars a month just

1 because of the difference in their fuel costs.

2 Somewhere down the line my grandkids are
3 going to have to pick up the trash that we pass on
4 to them, and live with what we pass on to them.

5 I'm hopeful that in your wisdom and your thought
6 process we do something that allows small
7 businesses to continue to provide the energy, the
8 innovation that they have in the past. And allows
9 that by increasing the supply available of motor
10 fuel.

11 Encouraging the alternative forms of
12 energy as things come along. I think some of
13 these things coming on the combination of the
14 Prius where they have the fuel and electrical
15 operation in the cars are terrific.

16 Finding that balance, I don't envy you.
17 I'm glad I'm not sitting in your chairs. I am
18 hopeful in the future that we can smooth out some
19 of these operations, some of the impacts of the
20 regulatory process so that my customer base, of
21 which I don't want to give you anecdotal evidence
22 of the ones that are gone here, but there's a lot
23 of them that have not been able to survive. And
24 those specifically that have not been able to
25 survive because of the regulatory impacts, still

1 might be down there with the second generation, as
2 myself.

3 Thank you for your time. Any questions?

4 PRESIDING MEMBER BOYD: Thank you, Mr.
5 DeWitt. I appreciate your comments. I can
6 identify with, believe it or not, as a fourth
7 generation Californian, I care about the same
8 things you care about.

9 And I've been in government far too
10 long; it's time to move on. But, when I started
11 in government there were 21 million Californians.
12 Now there are 35. And I think you touched upon, I
13 wish some of them would move to Nevada and
14 Arizona, quite frankly, and then maybe our fuel
15 would cost less, because it wouldn't have to be as
16 clean as it has to be in order for your grandkids
17 to not cough.

18 So, I appreciate the dilemma you bring
19 to us. We wrestle with it regularly, the
20 attractiveness of California to so many people is
21 a blessing and a curse all at the same time.

22 And we do have a unique gasoline in this
23 state in order to provide that clean air and good
24 health that you talk about. And it's a little
25 tougher to deal with it than it is elsewhere.

1 I think the rest of the country, as its
2 population grows, will end up with the same kind
3 of gasoline some day. And am pleased to comment
4 that Commissioner Geesman and I both
5 coincidentally do drive those Priuses. And see
6 things like that as part of our future.

7 So, we take into account your concerns,
8 and we do the best we can. I only hope we can
9 both meet our goals and accomplishments.

10 MR. DeWITT: Well, I find a very good
11 use for ethanol is with a little tonic, a little
12 ice, and a lime.

13 (Laughter.)

14 PRESIDING MEMBER BOYD: Used to be the
15 only use they knew for it years ago.

16 All right. Did Shaun Lumachi come back
17 into the room? Well, he didn't indicate he had a
18 problem, but unfortunately didn't get recognized.
19 I guess he had to leave. Nobody waved.

20 That's all the cards I have. If there's
21 anyone else who would like to testify, who didn't
22 obtain the opportunity, why, the floor is open to
23 you. Now would be the time.

24 Failing that, I thank you all for
25 coming, and appreciate your input. And look

1 forward to seeing you again sometime on some other
2 subject.

3 And thank you for attending today. This
4 meeting is adjourned, and I'd like to thank the
5 City for the use of their facility.

6 (Whereupon, at 12:00 noon, the hearing
7 was adjourned.)

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CERTIFICATE OF REPORTER

I, JAMES RAMOS, an Electronic Reporter,
do hereby certify that I am a disinterested person
herein; that I recorded the foregoing California
Energy Commission Hearing; that it was thereafter
transcribed into typewriting.

I further certify that I am not of
counsel or attorney for any of the parties to said
hearing, nor in any way interested in outcome of
said hearing.

IN WITNESS WHEREOF, I have hereunto set
my hand this 8th day of October, 2003.

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